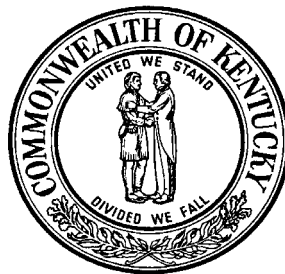


**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS
CABINET FOR HEALTH AND FAMILY SERVICES**

**In Reference to the Statewide Single Audit
of the Commonwealth of Kentucky**

**For the Year Ended
June 30, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Mark Birdwhistell, Secretary
Cabinet for Health and Family Services

MANAGEMENT LETTER

KRS 43.090 (1) requires the Auditor of Public Accounts, upon completion of each audit and investigation, to prepare a report of all findings and recommendations, and to furnish copies of the report to the head of the agency to which the report pertains, and to the Governor, among others. This KRS also requires the Cabinet for Health and Family Services (CHFS) to, within 60 days of the completion of the final audit, notify the Legislative Research Commission and the Auditor of Public Accounts of the audit recommendations it has implemented and those it has not implemented and any reasons therefor. We are providing this letter to CHFS in compliance with KRS 43.090.

The work completed on CHFS is part of the overall opinions included in the audit of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) and Statewide Single Audit of Kentucky (SSWAK). Findings and recommendations for agencies, audited as part of the CAFR and SSWAK, if applicable, can be found in the Statewide Single Audit Report. This report can be obtained on our website at www.auditor.ky.gov.

In planning and performing our audits of the Commonwealth for the year ended June 30, 2006, we considered CHFS' internal control over financial reporting and compliance with laws, regulations, contracts and grant agreements in order to determine our auditing procedures for the purpose of expressing opinions included in the audit of the CAFR and SSWAK and not to provide an opinion on internal control or on compliance.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The SSWAK is a separate report dated March 28, 2007, and contains all reportable conditions and material weaknesses in the Commonwealth's internal control over financial reporting and internal control over compliance and also contains all reportable instances of noncompliance. This letter does contain CHFS' findings and our recommendations that have been extracted from the SSWAK report along with other matters that have been identified.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Mark Birdwhistell, Secretary
Cabinet for Health and Family Services

We will review the status of these comments during our next audit. We have already discussed many of these comments and suggestions with various CHFS personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Schedule of Expenditures of Federal Awards
- ◆ Notes to the Schedule of Expenditures of Federal Awards
- ◆ Findings and Recommendations
- ◆ Summary Schedule of Prior Audit Findings

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 28, 2007

LIST OF ABBREVIATIONS/ACRONYMS

AD	Active Directory
Admin	Administration
AFR	Annual Financial Report
AICPA	American Institute of Certified Public Accountants
AMS	Area Message System
APA	Auditor of Public Accounts
APD	Advanced Planning Document
BBN-IAD	Bolt, Beranek and Newman Interface Access Device
Cabinet	Current CHFS Cabinet and Former CFC and CHS Cabinets
CAFR	Comprehensive Annual Financial Report
CCR's	Change Control Requests
CFC	Cabinet for Families and Children
CFDA	Catalog of Federal Domestic Assistance
CGMS	Copy Generation Management System
CHFS	Cabinet for Health and Family Services
CHS	Cabinet for Health Services
CICS	Customer Information Control System
CIM	Compaq Information Manager
Commonwealth	Commonwealth of Kentucky
COT	Commonwealth Office of Technology
CRS	Customer Request for Services
CSE	Child Support Enforcement
DCBS	Department for Community Based Services
DCE	Distributing Computing Endpoint
DCR	Database Change Request
DETER	Determining Eligibility Through Extensive Research
DMH-MRS	Department for Mental Health and Mental Retardation Services
DMS	Department for Medicaid Services
DPA	Division of Personnel Administration
DoS	Denial of Service
DRF	System Design Request Form
EDS	Electronic Data Systems Corporation
FAD	Family Alternative Diversion
FMB	Financial Management Branch
FSM	Family Support Memo
FSSB	Family Self Sufficiency Branch
FY	Fiscal Year
GPS	Global Positioning Systems
HTTP	Hypertext Transfer Protocol
HTTPS	Hypertext Transfer Protocol Secure
ID	Identification
IIS	Internet Information Server

LIST OF ABBREVIATIONS/ACRONYMNS**(Continued)**

KAAAP	Kentucky Access, Accuracy, and Accountability Project
KAMES	Kentucky Automated Management and Eligibility System
KASES	Kentucky Automated Support Enforcement System
KCD	Kentucky Claims Debt Management
KMMIS	Kentucky Medicaid Management Information System
KRS	Kentucky Revised Statutes
KTAP	Kentucky Transitional Assistance Program
KWP	Kentucky Works Program
LAN	Local Area Network
LHD	Local Health Departments
LTC	Long Term Care
LSA	Local Security Authority
MARS	Management Administrative Reporting System
MHMR	Mental Health Mental Retardation
MH/MR	Department of Mental Health/Mental Retardation
MISCR	Medicaid Inter-Office System Change Request
MMIS	Medicaid Management Information System
NA	Not Applicable
NEO	Internet Entity Object
NetBIOS	Network Basic Input/Output System
NT	New Technology
OCO	Office of Contract Oversight
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
OS	Operating System
PAS	Public Assistance System
PCG	Public Consulting Group
Personnel	Personnel Cabinet
PWB	Project Workbook
RACF	Resource Access Control Facility
RFP	Request for Proposal
RTMC-SC104	Radio Technical Commission for Maritime Services Special Committee No. 104
SAS	Statement on Auditing Standards
SDLC	System Development Life Cycle
SP	Service Pack
SSN	Social Security Numbers
SSWAK	Statewide Single Audit of Kentucky
STEP	System Tracking Employability Program
TANF	Temporary Assistance for Needy Families
Tier	Tier Technologies
WIN	Work Incentive
U.S.	United States

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
U.S. Department of Agriculture				
Direct Programs:				
Food Stamp Cluster:				
10.551	Food Stamps (Note 2) (Note 3)		\$640,370,080	
10.561	State Administrative Matching Grants for Food Stamp Program (Note 2)	\$31,541,989		\$258,263
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	105,067,616		18,563,666
U.S. Department of Justice				
Passed Through From Justice Cabinet:				
16.588	Violence Against Women Formula Grants	10,018		
16.NA (1)	Prescription Drug Monitoring Program	175,284		
U.S. Department of Labor				
Direct Programs:				
17.235	Senior Community Service Employment Program	1,606,971		1,570,671
U.S. Environmental Protection Agency				
Direct Programs:				
66.032	State Indoor Radon Grants	466,806		355,225
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	281,721		
U.S. Department of Energy				
Direct Programs:				
81.042	Weatherization Assistance for Low-Income Persons	4,607,992		3,630,519
Passed Through From Environmental and Public Protection Cabinet				
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight	400,331		199,415
U.S. Department of Education				
Direct Programs:				
84.181	Special Education-Grants for Infants and Families with Disabilities	4,281,815		
84.186	Safe and Drug-Free Schools and Communities - State Grants	1,633,013		1,633,013
U.S. Department of Health and Human Services				
Direct Programs:				
93.003	Public Health and Social Services Emergency Fund	727,009		

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
U.S. Department of Health and Human Services				
Direct Programs (Continued):				
93.041	Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	70,518		70,518
93.042	Special Programs for the Aging - Title VII, Chapter 2 – Long Term Care Ombudsman Services for Older Individuals	171,199		109,172
93.043	Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	305,212		303,212
Aging Cluster:				
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	5,231,192		4,865,748
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services	7,897,126		7,412,534
93.053	Nutrition Services Incentive Program	1,856,892		1,856,892
93.048	Special Programs for the Aging – Title IV and Title II- Discretionary Grants	45,102		27,891
93.051	Alzheimer's Disease Demonstration Grants to States	190,651		159,636
93.052	National Family Caregiver Support	2,354,283		2,190,089
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (Note 4)	1,187,108		1,179,490
93.110	Maternal and Child Health Federal Consolidated Programs	260,008		209,133
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs (Note 3)	867,858	94,127	675,510
93.130	Primary Care Services - Resource Coordination and Development	65,344		24,000
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,073,650		1,073,650
93.150	Projects for Assistance In Transition from Homelessness (PATH)	393,000		393,000
93.197	Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	653,134		560,295
93.217	Family Planning - Services	5,864,486		5,313,176
93.230	Consolidated Knowledge Development and Application (KD&A) Program	19,792		19,792
93.234	Traumatic Brain Injury State Demonstration Grant Program	207,758		207,758
93.235	Abstinence Education Program	752,837		711,051

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
U.S. Department of Health and Human Services				
Direct Programs (Continued):				
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	78,139		49,723
93.242	Mental Health Research Grants (Note 4)	58,139		57,404
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	1,177,442		1,096,792
93.251	Universal Newborn Hearing Screening	122,488		
93.262	Occupational Safety and Health Program	100,000		100,000
93.268	Immunization Grants (Note 2) (Note 3)	2,785,377	17,963,122	1,458,485
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance (Note 3)	18,928,989	184,885	11,096,017
93.556	Promoting Safe and Stable Families	5,996,918		1,991,694
93.558	Temporary Assistance for Needy Families (Note 2)	126,756,492		11,866,744
93.563	Child Support Enforcement (Note 2)	41,002,716		26,986,417
93.568	Low-Income Home Energy Assistance (Note 2)	27,735,311		27,536,488
93.569	Community Services Block Grant	10,487,838		8,582,458
93.571	Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs	52,156		52,156
Child Care Cluster:				
93.575	Child Care and Development Block Grant (Note 2)	45,630,359		548,291
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2)	77,929,086		7,613,029
93.590	Community-Based Child Abuse Prevention Grants	1,921,463		492,373
93.597	Grants to States for Access and Visitation Programs	101,180		101,166
93.599	Chafee Education and Training Vouchers Program (ETV)	405,479		
93.603	Adoption Incentive Payments			
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,085,291		551,724
93.643	Children’s Justice Grants to States	19,358		
93.645	Child Welfare Services - State Grants	4,500,357		
93.647	Social Services Research and Demonstration	190,729		
93.658	Foster Care-Title IV-E (Note 2)	50,977,494		
93.659	Adoption Assistance (Note 2)	23,534,476		
93.667	Social Services Block Grant (Note 2)	23,093,090		778,354
93.669	Child Abuse and Neglect State Grants	186,905		82,998
93.671	Family Violence Prevention and Services/Grants for Battered Women’s Shelters/Grants to States and Indian Tribes	1,318,971		1,303,518

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
U.S. Department of Health and Human Services				
Direct Programs (Continued):				
93.674	Chafee Foster Care Independence Program	1,626,790		1,049,367
93.767	State Children’s Insurance Program (Note 2)	77,241,521		117,605
Medicaid Cluster:				
93.777	State Survey and Certification of Health Care Providers and Suppliers (Note 2)	7,001,007		
93.778	Medical Assistance Program (Note 2)	3,218,941,015		
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	714,622		554,177
93.889	National Bioterrorism Hospital Preparedness Program	7,243,682		7,196,645
93.917	HIV Care Formula Grants	7,363,160		2,180,332
93.940	HIV Prevention Activities - Health Department Based (Note 3)	1,825,859	11,900	1,493,781
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	113,456		31,437
93.945	Assistance Programs for Chronic Disease Prevention and Control	305,319		186,941
93.958	Block Grants for Community Mental Health Services	5,996,109		5,944,034
93.959	Block Grants for Prevention and Treatment of Substance Abuse (Note 2)	20,717,585		20,680,651
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants (Note 3)	888,046	244,449	156,051
93.988	Cooperative Agreements For State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	572,251		512,408
93.991	Preventive Health and Health Services Block Grant	725,733		717,964
93.994	Maternal and Child Health Services Block Grant to the States	10,238,272		5,410,893
93.NA (1)	Clinical Laboratory Improvement Act	265,524		
Passed Through From Education Cabinet				
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	142,246		59,236
U.S. Corporation for National and Community Service				
Direct Programs:				
94.003	State Commissions	186,570		
94.006	AmeriCorps	1,951,111		1,951,079
94.007	Planning and Program Development Grants	40,305		

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<u>U.S. Corporation for National and Community Service</u>				
Direct Programs (Continued):				
94.009	Training and Technical Assistance	120,741		
Foster Grandparents/Senior Companion Cluster:				
94.011	Foster Grandparent Program	577,934		
<u>U.S. Social Security Administration</u>				
Direct Programs:				
Disability Insurance/SSI Cluster:				
96.001	Social Security-Disability Insurance (Note 2)	41,527,730		
<u>U.S. Department of Homeland Security</u>				
Passed Through From Department of Military Affairs				
97.040	Chemical Stockpile Emergency Preparedness Program	198,884		52,515
Total Cabinet For Health and Family Services		\$4,052,969,430	\$658,868,563	\$204,214,266

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Basis of Presentation - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity administered by the Cabinet for Health and Family Services (CHFS), except those programs administered by state universities, and is presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. The Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the basic financial statements.

KRS 45.229 provides that the Finance and Administration Cabinet may, “for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Noncash assistance programs, where applicable, are not reported in the basic financial statements of the Commonwealth for FY 06. The noncash expenditures presented on this schedule represent the noncash assistance expended by CHFS using the method or basis of valuation described in Note 3.

Clusters of programs are indicated in the schedule by light gray shading. Programs that do not have CFDA numbers are identified using the two-digit federal identifier prefix, and the letters “NA” to denote that no specific number is applicable. Each program is numbered in parentheses, following the NA for each federal grantor.

The state agencies’ schedule is presented on the cash, modified cash, or accrual basis of accounting.

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-Agency Activity

- (a) Federal moneys may be received by one state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

State agencies that pass federal funds to state universities report those amounts as expenditures.

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as an expenditure by the purchasing agency only.

Note 2 - Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$20 million for FY 06. CHFS had the following programs (cash and noncash) that met the Type A program definition for FY 06, some of which were administered by more than one (1) state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. CHFS identified four (4) clusters among the Type A programs by gray shading. These Type A programs and clusters were:

CFDA #	Program Title	Expenditures
Food Stamp Cluster:		
10.551	Food Stamps	\$640,370,080
10.561	State Administrative Matching Grants for Food Stamp Program	31,541,989
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	105,067,616
93.268	Immunization Grants	20,748,499
93.558	Temporary Assistance for Needy Families	126,756,492
93.563	Child Support Enforcement	41,002,716
93.568	Low-Income Home Energy Assistance	27,735,311
Child Care Cluster:		
93.575	Child Care and Development Block Grant	45,630,359
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	77,929,086

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 2 - Type A Programs (Continued)

CFDA #	Program Title	Expenditures
93.658	Foster Care - Title IV-E	50,977,494
93.659	Adoption Assistance	23,534,476
93.667	Social Services Block Grant	23,093,090
93.767	State Children's Insurance Program	77,241,521
Medicaid Cluster:		
93.777	State Survey and Certification of Health Care Providers and Suppliers	7,001,007
93.778	Medical Assistance Program	3,218,941,015
93.959	Block Grants for Prevention and Treatment of Substance Abuse	20,717,585
Disability Insurance/SSI Cluster:		
96.001	Social Security - Disability Insurance	41,527,730
Total Type A Programs		<u>\$4,579,816,066</u>

Note 3 - Noncash Expenditure Programs

CHFS' noncash programs and a description of the method/basis of valuation follow.

CFDA #	Program Title	Amount	Method/Basis of Valuation
10.551	Food Stamps	\$640,370,080	Electronic Benefit Transfer Issuance.
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	94,127	Per authorized award.
93.268	Immunization Grants	17,963,122	Per authorized award for personnel, vaccine costs, and travel.
93.283	Centers For Disease Control And Prevention - Investigation And Technical Assistance	184,885	Per authorized award.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Note 3 - Noncash Expenditure Programs (Continued)

CFDA #	Program Title	Amount	Method/Basis of Valuation
93.940	HIV Prevention Activities - Health Department Based	11,900	Per authorized award for personnel costs.
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants	244,449	Per authorized award for personnel costs.
Total Noncash Expenditures		<u>\$ 658,868,563</u>	

Note 4 - Research and Development Expenditures

OMB Circular A-133 Section 105 states, "Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-federal entity."

The expenditures presented in the SEFA include R&D expenditures. The R&D portion of the expenditures for each program follows.

CFDA #	Program Title	Expenditures
93.242	Mental Health Research Grants	\$ 15,000
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	14,686
Total R&D Expenditures		\$ 29,686

Note 5 - Zero Expenditure Programs

These programs had no expenditures related to CHFS during FY 06. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 06-CHFS-1: The Cabinet For Health And Family Services Should Strengthen The Security Of System Accounts

During the security vulnerability assessments for FY 06 for machines controlled by the Cabinet for Health and Family Services (CHFS), our examination revealed various system user accounts with password ages that exceeded the established password policy. Additionally we noted several guest accounts that had not been disabled.

We obtained NetBIOS account information from five (5) CHFS machines, three (3) of which were identified during the prior year audit. To determine if user accounts on these machines were in compliance with established policies, the auditor used the criterion that account passwords with ages over 31 days were non-compliant. Of the 108 active Administrator level accounts reviewed among these five (5) machines, there were 61 accounts, or 56.5 percent, with a password age of 32 to 1,667 days and 41 accounts, or 38 percent, which indicate they have never been used to log into the system. Further, of the 3,997 active user accounts reviewed, there were 2,250 accounts, or 56.3 percent, that had never been used to log into the system and 1,013 accounts, or 25.3 percent, with a password age of 32 to 1,995 days.

In addition, seven (7) out of eight (8) guest accounts, or 87.5 percent, had never been used to log into the system; the remaining guest account had a password age of 1,301 days. During FY 05, it was noted that one of these accounts was established on a scanner, which provided various information about the scanner and locations of reports. While this information was not provided during the current review, the account was still noted as non-compliant with the agency established security policy. Further, two of these active guest accounts had not been renamed from the default.

As was noted within our audits for the past two (2) years, comments were viewable concerning four (4) machines that included data that appears to be the last four digits of the user's social security number (SSN). If an account identifier is required then something other than the user's SSN should be used.

The use of default accounts, lax enforcement of the agency's established password policy, or the existence of unused accounts increases the likelihood that accounts could be compromised, as well as the underlying data accessible by those accounts. Providing personal information to anonymous or unauthorized users increases liability that could occur should an unauthorized user obtain that information.

Intruders often use inactive or default accounts to break into a network. If an account has not been used for a reasonable period of time, the account should be disabled until it is needed. This minimizes the possibility that an unauthorized user will access the account. An account should be deleted if it is not going to be reinstated. Personal data should not be readily available. Established password policies should be consistently applied and enforced.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-1: The Cabinet For Health And Family Services Should Strengthen The Security Of System Accounts (Continued)**

Recommendation

We recommend CHFS review all user accounts on all machines to determine which accounts are not in compliance with the established security policies. These accounts should be evaluated to determine if they are still valid accounts and are required for a business related purpose. If not, the accounts should be disabled or deleted depending on the necessity of reinstatement of the account.

In addition, the agency should ensure personal information, including social security numbers, are not used to identify an account. Per the agency response to our FY 04 audit, the last four digits of the SSN is used as a security measure when taking action on the individual's account. This procedure is coupled with call back to the individual workstations. However, this process still poses a security risk of providing the personal information to intruders and should be re-evaluated by the agency.

Management Response and Corrective Action Plan

After review of the accounts in question it was determined that these accounts were in the former Cabinet for Health Services (CHS) and Cabinet for Families and Children (CFC) NT4.0 domains that are no longer active domains. These domains have been combined in to the new CHFS domain with the migration to Active Directory (AD) during the audit period. The remaining domain accounts are currently being migrated to the new domain in the Commonwealth of Kentucky (COT) Foster Domain and slated for completion 10/31/06. Corrective action has been taken to delete all accounts within the old NT4.0 domains with the exception of service accounts needed to run applications still in the old domains. These are all in the process of being converted to AD and will be complete within the near future. Accounts within the former CHS Mental Health Mental Retardation (MHMR) domain still remain due to Health Insurance Portability and Accountability Act (HIPAA) audit requirements. Corrective action has been taken to disable all remaining accounts and delete any account outside the HIPAA audit time period.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-2: The Cabinet For Health And Family Services Should Implement Procedures To Ensure Services Are Received Prior To Paying The Full Contract Amount**

During our audit of CHFS Federal Fund 1200 expenditures for the Medicaid program, we noted a significant noncompliance in contract administration.

On December 16, 2004, CHFS requested permission from the Finance and Administration Cabinet to enter into a sole source contract with Artemetrx to provide an interactive web-based support tool that would likely result in Medicaid cost savings. The services to be provided under the contract included help desk support, data transmission, hosting information, and functional changes within the system and the work was to be completed in 2 stages. The University of Kentucky College of Pharmacy previously provided these services to CHFS. Based on the documentation provided, the effective date of the contract was January 19, 2005 and the contract was to expire on August 31, 2005. On January 24, 2005, Artemetrx billed CHFS for the entire contract amount of \$1,000,000. While an invoice was approved by CHFS and payment was authorized on February 1, 2005, the invoice provided to the auditor did not include sufficient detail to determine what services were actually provided.

CHFS continued to work with Artemetrx after the payment date and requested changes throughout the contract period; however, CHFS did not renew the contract. Under the terms of the contract, Artemetrx was to be paid upon successful completion and acceptance of the described work. The contract did not provide for any interim, partial payments, or amounts to be paid upon completion of the work.

We question whether, in only 3 business days, Artemetrx provided services to CHFS commensurate with the \$1,000,000 in Federal funds that was paid to the contractor. Based on the invoice provided and through inquiries with various agency personnel, we could not determine if the deliverables due under the contract were fully provided to CHFS or if they met the satisfaction of CHFS as specified in the provisions at the time of payment.

The practice of state agencies making full or partial payments on contracts before services are actually rendered is prohibited by section three (3) of the Kentucky Constitution, as addressed in an Attorney General's Opinion, OAG 79-448.

Finance policies at FAP 110-10-00 state that bills should be paid within 30 working days of either the receipt of correct invoice, or receipt of goods or services in satisfactory condition.

The contract provisions state that, "Payments are predicated upon successful completion and acceptance, by the Commonwealth, of the described work, services, supplies, or commodities, and delivery of the required documentation. Invoices for payment shall be submitted to the Agency Contact Person or his/her representative."

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-2: The Cabinet For Health And Family Services Should Implement Procedures To Ensure Services Are Received Prior To Paying The Full Contract Amount (Continued)**

OMB Circular A-87 states, "Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices." A-87 further states, "for costs to be allowable under Federal awards, costs must not be prohibited under state or local laws or regulations...and, be adequately documented."

OMB Circular A-133 Compliance Supplement – Part 6 on internal control over Federal awards requires state agencies to monitor and document contractor performance with the terms, conditions, and specifications of the contract. Management should conduct independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended. Procedures should be sufficient to identify risks arising from vendor inadequacy.

Good internal controls require expenditures to be supported with adequate documentation before approval at each level.

Recommendation

CHFS should have either delayed payment until the contract services were fully rendered, or amended the contract to provide for partial payments based on clearly defined deliverables and services which had actually been received. We recommend CHFS re-evaluate the contract monitoring process and implement controls to ensure similar situations do not occur.

Management Response and Corrective Action Plan

The Department is in the process of reviewing and upgrading its contract monitoring processes and procedures. A contract monitoring focus group has been installed within the Commissioner's office. There is currently one employee hired (an attorney by training) and a second employee is being transferred into the Commissioner's Office to also assist the Medicaid Divisions with monitoring. The latter employee has extensive training on the new State Accounting System (E-MARS). Program monitoring changes will include controls to ensure that contract payments are not made until a documented deliverable has been received, reviewed, and approved. We agree that in this particular contract the payment terms did not adequately define the payment terms that the department had intended for this vendor and we will take steps to alleviate these ambiguities in the terms and conditions attached to future and current contracts.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 06-CHFS-3: The Cabinet For Health And Family Services Should Strengthen Controls Over The Processing Of Vendor Payments

While testing expenditures of CHFS, significant delays between the invoice date and paid date were noted within the Department of Mental Health Mental Retardation (MHMR). To determine the extent of the problem, auditors requested original documentation of payments made to vendors from Hazelwood Center, the facility where the majority of the problems were noticed. Of the 15 invoices tested at Hazelwood, problems were noted with each.

- Lack of supporting documentation

Supporting documentation is not always obtained prior to paying an invoice. Invoices are sent to various offices on the Hazelwood campus, or left with goods as they are delivered instead of being sent directly to the accounting department. Ten (10) of the invoices viewed were faxed to the facility and the original invoices were not available. In some instances, the original invoices may have been misplaced or not retained for the appropriate length of time. Six (6) of the 15 invoices were not accompanied by a receiving report. Invoices did not always have a "Received" stamp, showing the date the invoice was received in the business office. One instance was noted of a payment being sent to the wrong vendor. That vendor credited the facility's account and did not issue a refund of the amount paid in error. Payment was then made to the correct vendor, causing a duplicate payment for the same invoice. Poor record keeping, employee turnover, and inadequate communication between MHMR and Hazelwood may contribute to the problems in the accounting office. Without sufficient documentation, the facility could be making duplicate payments or paying the incorrect amount to vendors. If the receiving report is not reviewed, the state could be paying for goods not received.

Finance and Administration Policy (FAP 110-10):

SELLER'S INVOICES: Invoices, if required, shall be prepared and transmitted to the agency receiving the goods or services. One copy shall be marked "original" unless otherwise specified.

- Timely Payment

Accounting personnel do not always receive a copy of the original invoice. Eight (8) of the items included past due amounts or were marked FINAL BILL. An explanation of what happened to the previous bills could not be provided.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 06-CHFS-3: The Cabinet For Health And Family Services Should Strengthen Controls Over The Processing Of Vendor Payments (Continued)

Accounting personnel may not be aware of FAC policies governing vendor payments. This could lead to vendors deciding not to do business with the state because of the difficulty in receiving payments. Any early payment discounts are not taken advantage of if payments are not made timely. Additional charges may be assessed for late payments.

Finance and Administration Policy (FAP 110-10):

TERMS FOR PROMPT PAYMENT: A bill shall be paid within 30 working days of either the receipt of correct invoice, or receipt of goods or services in satisfactory condition. A penalty payment of one percent (1%) per month shall be added to the amount due the vendor for each full or partial month that the payment exceeds 30 working days. As an incentive for earlier payment, bidders for state contracts are encouraged to offer discounts for payments made in less than the prescribed 30 days.

(FAP 120-05):

The originating agency shall in ten working days:
Process the document to acceptance.

(FAP 111-45):

The original vendor invoice, if required, shall be retained in the agency for the period of time required by the appropriate document retention schedule. The invoice shall be on the official invoice form of the vendor.

(FAP 120-21):

An agency shall maintain the original source document that initiated a transaction and shall maintain a system of tracking that allows for auditing the original source document back to the electronic system.

- Coding Error

One (1) expenditure for \$343 was recorded in MARS as E256, Garbage Collection. The corresponding invoice showed pagers were purchased. The \$343 should have been charged to E265, Paging Services.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-3: The Cabinet For Health And Family Services Should Strengthen Controls Over The Processing Of Vendor Payments (Continued)**

Accounting personnel have not always been properly trained in entering information into MARS. There may not be proper review over the processing of expenditure payments. Miscoding expenditures in MARS causes numerous problems when tracking the amount spent in each expenditure area. This could cause Financial Statements and reports to be misstated.

Finance and Administration Policy (FAP 120-19):

AGENCY RESPONSIBILITY FOR ACCURATE USE OF EXPENDITURES OBJECT CODES: Payments classified with objects that are potentially 1099 reportable shall be reviewed by agencies to insure correct classification of expenditures involving both services and materials.

Recommendation

We recommend the following:

- **Lack of Supporting Documentation**
 - Retain all original invoices.
 - Document payments made to vendors to ensure duplicate payments are not being made.
 - Implement procedures to monitor payment processes at state run facilities.
 - Require vendors and/or staff to send invoices directly to the accounting office.
 - Require staff to forward all receiving reports to the accounting office and make payments on invoices only after they are reviewed.
- **Timely Payment**
 - Make payments to vendors in a timely manner.
 - Take advantage discounts offered for on-time payments
- **Coding Error**
 - Provide training on entering information into MARS to the accounting staffs of MH/MR facilities.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-3: The Cabinet For Health And Family Services Should
Strengthen Controls Over The Processing Of Vendor Payments (Continued)****Management Response and Corrective Action Plan**

On December 12, 2006, a meeting was held to discuss the above audit findings made by the Auditor of Public Accounts (APA). Personnel attending this meeting included representatives from the APA, the Department for Mental Health and Mental Retardation Services (DMH-MRS), and the Cabinet for Health and Family Services central office accounting staff. The meeting was held at the request of DMH-MRS to discuss the audit findings and clarify questions concerning the audit of State Fiscal Year 2006 operations. DMH-MRS was provided working papers by the auditors along with explanations of the audit findings.

From that meeting, DMH-MRS understands the findings and subsequent "Record of Control Weakness" are related to our Hazelwood Center operations only. While the audit report indicates other possible instances, the audit findings are based upon fifteen Hazelwood invoices only and where the majority of problems occurred according to the report. Therefore, DMH-MRS bases our response solely on those fifteen invoices and operations at Hazelwood Center.

From the meeting with APA staff, DMH-MRS understands that the fifteen invoices represent an entire universe of transactions being defined by the lag in payment date compared to the received date of the goods or services. The total of these questioned invoices is \$11,864.35 with total Hazelwood Center expenditures amounting to \$35,293,615 for the fiscal period. The percentage of questioned invoices to total expenditures yields a rate of occurrence of approximately one-third of one percent. In regard to the audit findings, DMH-MRS has weighted the possible exposures and risks along with this rate of occurrence and the fact that said transactions are part of a known universe. If such transactions were expected to occur at even a marginal rate of occurrence across the entire Department's operations, we would very likely present a different plan of action than the one contained herein.

The audit demonstrates that some accounting documents are not reaching the appropriate staff at Hazelwood Center for processing. This could result from several reasons such as the vendors failing to bill us, failure of receiving Departments to transmit documents to the Business Office, loss of documents in the Business Office, etc. Furthermore, Hazelwood Center did not have mitigating controls sufficient to prevent or reveal such incidences during the audit period. The cause of these bills not being paid timely primarily results from documents not reaching the Business Office in DMH-MRS' estimation.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-3: The Cabinet For Health And Family Services Should
Strengthen Controls Over The Processing Of Vendor Payments (Continued)****Management Response and Corrective Action Plan**

Some of the fifteen invoices referenced might be justified given individual circumstances involving those payments. However, we accept the audit's general premise that all accounting documents need to be protected, retained, and monitored in such a way as to limit some occurrences contained within the group of fifteen. DMH-MRS is unsure what the APA is referring to concerning the comment of "inadequate communication between MH/MR and Hazelwood" possibly contributing to problems.

Based upon the findings of the audit, Hazelwood Center plans to implement operating changes that include hiring a reception/clerical person, training existing staff on established policies, and developing policies to strengthen controls in certain aspects of the operation as contained below:

- Hire a receptionist/clerical position that has been vacant in the Business Office. This person will initially receive accounting documents routed to the Business Office and make sure that appropriate stamps have been applied. Also, the position will monitor a process to be developed for documents awaiting an invoice including a review every 15 days and follow-up with vendors on all outstanding issues at each review interval.*
- Purchase additional date stamps as contained in FAP 120-05-00.*
- Implement procedures for receiving and payments of goods/services consistent with the Commonwealth's procurement policies and especially addressing routing of documents and documenting receipt of goods/services.*
- Develop facility policy concerning vendor contacts including documentation requirements and retention issues.*
- All facility personnel involved in purchasing, receiving and payments shall be scheduled for appropriate training within the next 30 days.*
- Develop an internal review process scheduled on a routine basis to review operations for compliance with facility procedures.*

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-3: The Cabinet For Health And Family Services Should
Strengthen Controls Over The Processing Of Vendor Payments (Continued)****Management Response and Corrective Action Plan**

We will forward copies of all Hazelwood policies and procedures implemented as a result of this audit to the APA no later than March 1, 2007. The Fiscal Officer at Hazelwood Center is the contact person for implementing recommendation issues.

In regard to the APA's recommendations, we generally find them supported by the work performed, appropriate, and to be in accordance with the Commonwealth's procurement policies and procedures. Furthermore, we agree to implement the recommendations except for a couple of instances where DMH-MRS does not reconcile audit work performed with the recommendations made. Under the section titled "Lack of Supporting Documentation", a recommendation is contained to implement procedures for monitoring payment processes at state run facilities. As stated above, Hazelwood will implement a review of open items along with developing an internal review process. The findings do not indicate to DMH-MRS any need to look at other facilities or processes contained in the Cabinet. Each DMH-MRS Business Office is operated independently of the other facilities making the extension of this finding to other facilities appear inappropriate based upon the level of testing performed. In regard to the "Coding Error" recommendation, this is the same situation as the previously discussed item with each facility being independent. Also, we believe that Hazelwood's coding is appropriate and that the cited error is nothing more than a key stroke error from E256 instead of E265 and does not result from a lack of training or design weakness in the system. DMH-MRS strives to keep such instances to a minimum, but such errors are inherent in the work performed. DMH-MRS would not see the isolated example cited above as an indication of systematic concern. Not all staff in the Business Office would perform coding functions given appropriate segregation of duties in the procurement process. Hazelwood staff will review coding procedures with appropriate staff and continue to monitor payments for correct coding.

Auditor's Reply

For clarification, the comment on "inadequate communication between MHMR and Hazelwood" referenced that Hazelwood personnel were not aware of the appropriate date to enter in MARS-the date of the invoice, the date the invoice was received, or the date the invoice was paid. MHMR, according to the information provided to the auditor, did not provide guidance on this issue to Hazelwood personnel. Although the auditor noted invoice problems at the Hazelwood facility, CHFS may benefit from reviewing procedures in other facilities to ensure payment processes are operating effectively.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-4: The Cabinet For Health And Family Services Should Maintain Adequate Documentation For Contract/Vendor Payments**

During our audit of CHFS, concerns were noted in internal controls over the processing of capital project expenditures. Payments to contractors for work performed were not supported by adequate documentation. Specifically:

- Authorizations for expenditures were rubber stamped with no date, so it is unclear to the auditor as to the date the approval was made on CHFS Receiving Reports and Authorization for Payment forms.
- Vendor invoices totaling \$13,779 were changed by CHFS with no explanation or support as to what caused the changes, due to agency and vendor disagreement over pricing.
- Contract renegotiations, were not put in writing or explained to and agreed-upon by the vendor.

The cause of the above problems include:

- Invoices were not always stamped with the date received.
- Changes in invoice amounts were made on the invoice, but no explanation for the change was documented.
- Vendors may be performing work before the contract terms have been negotiated and agreed-upon.

As a result of these problems, payments may not be made timely and Kentucky could lose out on any early payment discounts.

Kentucky could be paying for work that has not been completed or paying a higher than necessary rate to avoid vendor disputes. If terms are not agreed-upon in writing, either party could claim to have been uninformed as to the terms of the agreement and vendor relations and quality of service could be compromised or disputed.

Finance policies at FAP 110-10-00 state that bills should be paid within 30 working days of either the receipt of correct invoice, or receipt of goods or services in satisfactory condition.

Good internal controls dictate that any reasons for changes to invoices be documented. Also, FAP 120-21 states, "An agency shall maintain the original source document that initiated a transaction and shall maintain a system of tracking that allows for auditing the original source document back to the electronic system."

The practice of state agencies making full or partial payments on contracts before services are actually rendered is prohibited by section three (3) of the Kentucky Constitution, as addressed in an Attorney General's Opinion, OAG 79-448.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 06-CHFS-4: The Cabinet For Health And Family Services Should Maintain Adequate Documentation For Contract/Vendor Payments (Continued)

Recommendation

We recommend the following:

- CHFS stamp all invoices with the date received.
- All supporting documentation and invoices for work performed by a vendor should be retained by CHFS and any changes to invoices documented.
- Contract payments should be closely monitored and reviewed before payment is made. Both parties should agree upon contract terms before work is performed. Contract terms should be followed by agency personnel and changes made through signed modifications only.

Management Response and Corrective Action Plan

- *CHFS stamp all invoices with the date received.*
 - *As of July invoices are time stamped with the date and person that received the invoice.*
- *All supporting documentation and invoices for work performed by a vendor should be retained by CHFS and any changes to invoices documented.*
 - *In this case the vendor was notified of the error and an agreement was struck. This agreement was not documented however the contract was modified with the knowledge of the vendor who was carbon copied by email dated September 30, 2005.*
 - *As of this RCW, measures have been established to ensure no changes occur to vendor timesheets or invoices. In this instance, the contracts should have been modified to the correct amounts invoiced and then after the payments were made changed back to the correct agreed upon amount or the contractor should have re-invoiced at the corrected amount.*
- *Contract payments should be closely monitored and reviewed before payment is made. Both parties should agree upon contract terms before work is performed. Contract terms should be followed by agency personnel and changes made through signed modifications only.*
 - *The final recommendation is duly noted and procedures to this effect have been reinforced.*

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-5: The Cabinet For Health And Family Services Should Strengthen Controls Over The Processing Of Contract Payments**

During our audit of CHFS' Department for Medicaid Services (DMS), we met with various personnel and reviewed a list of contracts. It came to our attention that the contract monitoring process did not adequately track payments made on contracts. DMS enters into contracts with vendors who administer various parts of the Medicaid program. The vendors process and substantiate Medicaid claims and distribute payments to doctors, hospitals and pharmacies. More than \$5 billion is expended annually through the Medicaid program; around \$3 billion of this is Federal money, \$2 billion paid by the state of Kentucky. Specific problems noted were:

- Personnel responsible for paying invoices had to wait a long time on personnel responsible for approving invoices.
- Personnel responsible for approving invoices would change the invoice amount but fail to document the reason for the change.
- No tracking system was in place to monitor contract payments to the entire contract amount to ensure overpayments or underpayments did not occur. For example, one contractor had been paid twice for the same invoice. This went undetected by DMS until the vendor notified them of the error.
- Also, there are no written guidelines relating to the tracking of contracts and invoice payment process. Expenditures are coded to different object codes depending on the person entering the data. A consistent method of entering data does not appear to exist.
- Auditor inquiries regarding comparison of prior year expenditures were not addressed by the agency. The agency failed to provide explanations for significant increases in "Miscellaneous" and "Other Benefits" expenditure categories.

The invoice payment process was not efficient and the contract monitoring process was not adequate. Guidelines on monitoring contracts and data input are not consistently applied. Procedures for invoice payment and contract monitoring are inconsistent and not written down. We do not know why our requests for variance explanations went unanswered.

Vendors were not paid timely. As a result, duplicate payments, overpayments, and underpayments could go undetected. There were large variances in amounts paid on contracts, depending on the person reviewing it. Expenditures to vendors and payments made on contracts are hard to determine.

Good internal controls dictate policies be consistently applied and adequate documentation be maintained. Documentation should be retained for a minimum of three (3) years and payments to contractors should be consistently reviewed to avoid mistakes.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-5: The Cabinet For Health And Family Services Should
Strengthen Controls Over The Processing Of Contract Payments (Continued)**

Recommendation

The auditor noted DMS recognized some of the weaknesses above during FY 07 and has already begun implementing changes. A new position has been created for contract monitoring. Persons responsible for approving invoices have been given a 5-day turn around time limit.

We recommend DMS continue to review and improve the contract monitoring process. Also, DMS should provide written guidelines related to invoice review, authorization, timely payment, and data input. DMS should track invoices against contracts to ensure the appropriate amount is paid and duplicate payments do not occur.

Management Response and Corrective Action Plan

As DMS representatives indicated to the State Auditors when they were here, DMS recognized the need for controls and had already begun working on implementing change when the Auditors arrived.

Since a new Commissioner has been in the Department, the following changes have been or are in the process of being implemented:

- 1) A Director of Contract Oversight has been hired whose responsibilities include reviewing and drafting Request for Proposals (RFPs), contracts, scope of works for more detailed deliverables and accountability; assisting program areas with corrective action plans, developing Department processes and procedures for contract monitoring.*
- 2) A lead Contract Monitor is in the process of being hired whose responsibilities will include training staff to create monitoring tools, assisting with creating corrective action plans, developing and tracking monitoring reports, tracking and analyzing monitoring data for management, setting contract tracking deadlines; providing statistical analysis to management staff as well as contractors; create and manage spreadsheets related to contract monitoring.*
- 3) All DMS contracts are being reviewed to ensure that the person(s) assigned to administer the contract are in charge of the program(s) responsible for monitoring the contract.*
- 4) DMS is developing written Invoice Processing Procedures for the department that will look somewhat like the following:*

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-5: The Cabinet For Health And Family Services Should
Strengthen Controls Over The Processing Of Contract Payments (Continued)****Management Response and Corrective Action Plan*****DMS Invoice Processing Procedures***

- 1. Unless counsel for CHFS prohibits, all DMS contracts entered into after the effective date of this procedure shall contain a provision similar to the following: "Contractor shall submit a monthly invoice for payment for services to the DMS Financial Management Branch(FMB), Department for Medicaid Services, 275 E. Main Street, 6W-C, Frankfort, KY, 40621, in a form prescribed or approved by DMS. The invoice shall not be submitted before the end of the month in which services were rendered or deliverables approved."*
- 2. All invoices shall be dated and logged into the DMS invoice tracking system by the Financial Management Branch upon receipt.*
- 3. The FMB shall monitor contract payments in relation to the budgeted contract amount to ensure that overpayments or underpayments do not occur. FMB shall forward monthly contract status reports to all Division Directors and the Commissioner's Office.*
- 4. Should an invoice submitted for payment be sent directly to an area outside of the FMB, it shall immediately be forwarded to the FMB.*
- 5. A copy of the invoice and any attachments shall be forwarded to the appropriate Division Director within three (3) business days of receipt by FMB for authorization prior to processing.*
- 6. It is the responsibility of the Division Director to verify the correctness of the invoice, including that the services, deliverables, materials and/or equipment have been received in good order and that the service or deliverables have been completed pursuant to the contract terms. The Division Director shall retain and be familiar with the most recent applicable contract, any modifications, and its terms.*
- 7. If and when verification has been made that services, deliverables, materials and/or equipment have been received in good order and pursuant to the contract terms, the original invoice, if correct in all respects, shall be approved for payment by the Division Director and returned to FMB within ten (10) business days of receipt. The invoice must be signed and dated by the Division Director and include their printed name.*

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-5: The Cabinet For Health And Family Services Should
Strengthen Controls Over The Processing Of Contract Payments (Continued)****Management Response and Corrective Action Plan**

8. *If the Division Director alters the invoice amount to be paid, the Division Director shall document the reason for the change. Any invoice on which the amount has been changed but has been submitted to the FMB without documentation shall be returned unpaid to the Division Director by the FM.*
9. *Divisions shall notify both the Commissioner's Office and the FMB of any issues surrounding invoices that cannot be resolved prior to the ten (10) business day deadline from expiring.*
10. *The FMB shall notify both the Division Director and the Commissioner's Office via email of any invoices that have not been approved for payment on the eleventh (11th) business day.*
11. *Invoices for the MMIS, KMAA, and the PBA contracts shall be reviewed for payment by the DMS Invoice Committee consisting of the Pharmacy Benefits Director, the Division of Administrative and Financial Affairs Director, the Division of Medical Management & Quality Assurance Director, the Division of Claims Management Director, the Division of Long Term Care & Community Alternative Director, the Division of Hospital & Provider Operations Director, and the OIT Project Managers.*
 - a. *The DMS Invoice Committee shall meet twice monthly or as needed.*
 - b. *The DMS Invoice Committee shall follow the procedures set forth in paragraphs 1-10 in reviewing invoices.*
 - c. *The DMS Invoice Committee shall elect a Committee chair at least yearly to conduct the invoice meetings, sign invoices on behalf of the Committee, and ensure that the procedures set forth above are followed.*

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 06-CHFS-6: The Cabinet For Health And Family Services Should Obtain A SAS 70 Audit

During our audit of CHFS, we noted that not all CHFS contracts with Service Organizations required a Statement on Auditing Standards 70 (SAS 70) audit. Since CHFS has contracts with multiple service organizations, which process and handle millions of dollars and transactions at any given time, each contract should include provisions requiring a SAS 70 audit to ensure controls are operating effectively, efficiently, and reliably.

From July 2005 thru May 2006, Tier Technologies, a Service Organization contracted with CHFS, processed \$268,053,376 out of a total of \$342,315,872 for Child Support or 78% of all CSE payments for a 11 month period.

"In addition, the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 make SAS 70 audit reports even more important to the process of reporting on effective internal controls at service organizations," as the website states: <http://www.sas70.com/about.htm>.

The lack of a SAS 70 audit denies CHFS valuable information on Service Organizations' controls and effectiveness. When SAS 70's are performed, the Cabinet would receive a detailed report describing the service organization's controls, along with an independent assessment of whether these controls were placed in operation, suitably designed, and operating effectively. Without the SAS 70 audits, CHFS does not have assurance that control activities and control objectives are being met at each Service Organization.

Statement on Auditing Standards 70 defines a Service Organization as "The entity (or segment of an entity) that provides services to a user organization that are part of the user organization's information system."

Statement on Auditing Standards 70 states, "Service organizations that provide such services include application service providers that provide packaged software applications and a technology environment that enables customers to process financial and operational transactions. The guidance in this section may also be relevant to situations in which an organization develops, provides, and maintains the software used by client organizations."

"Statement on Auditing Standards (SAS) No. 70, Service Organizations, is an internationally recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). A SAS 70 audit or service auditor's examination is widely recognized, because it represents that a service organization has been through an in-depth audit of their control activities, which generally include controls over information technology and related processes. SAS No. 70 is the authoritative guidance that allows service organizations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format." <http://www.sas70.com/about.htm>.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-6: The Cabinet For Health And Family Services Should Obtain
A SAS 70 Audit (Continued)**

“In addition the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 make SAS 70 audit reports even more important to the process of reporting on effective internal controls at service organizations,” as the website states: <http://www.sas70.com/about.htm>

Recommendation

We recommend CHFS require a SAS 70 audit for all contracts with Service Organizations going forward. This requirement will not only benefit the CHFS, but also would provide feedback on the controls and activities of the Service Organization, and demonstrate CHFS is committed to ensuring all transactions and monies are handled in a safe, secure, efficient manner.

Management Response and Corrective Action Plan

The Cabinet for Health and Family Services agrees that including a SAS 70 audit requirement in the contract for Child Support Collections is appropriate. The CHFS is currently drafting a Request for Proposal for a new contract for Child Support Collections and will include a requirement for a SAS 70 audit in the RFP and the resulting contract.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-7: The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose

During the FY 06 security vulnerability assessments of machines controlled by the Cabinet for Health and Family Services (CHFS), our examination revealed several machines with ports open that may not have a specific business-related purpose. We examined the open ports on 53 machines returning information during our scan. The findings, grouped by port number, are as follows:

Port 7 – Echo and Port 19 – Chargen

One machine was found with port 7 and 19 open. These ports are not necessary for the function of the server and could potentially be used to perpetuate a Denial of Service (DoS) attack. These ports were identified on this machine during the prior year audit.

Port 9 – Discard

One machine was found to have port 9 open, which normally indicates the Discard service.

Port 13 – Time

One machine was found with port 13 open. This port is used for the Time service, which could allow a potential DoS attack. This port was identified on this machine during the prior year audit.

Port 17 – Message of the Day

One machine was found with port 17 open. This port is used for the Time service, which could allow a potential DoS attack. This port was identified on this machine during the prior year audit.

Port 80 – Hypertext Transfer Protocol (HTTP)

One machine was found with port 80 open. This machine was under construction and does not currently display a default page. When no default website page or login request is present, normally this means that no application/web service is running and the port is not needed.

Port 135 – Distributed Computing Environment (DCE) endpoint resolution

Ten machines were found with port 135 open, which normally indicates the DCE Endpoint Resolution service.

Port 443 – Hypertext Transfer Protocol Secure (HTTPS)

Three machines were found with port 443 open. None of the three machines would display a legitimate web page.

Port 445 - Microsoft Directory Services (Microsoft-DS)

Four machines were found with port 445 open, which normally indicates Microsoft-DS. Vulnerability has been identified with the use of this port.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-7: The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

Port 777 – AimSpy

Three machines were found with port 777 open. This port has been associated with the AimSpy Trojan.

Port 1025 – network blackjack

One machine was found to have port 1025 open. Originally, it was thought that this port was running network Blackjack; however, it appears CHFS is using this port to run the NFS or IIS service.

Port 1030 and 1031 – Bolt, Beranek and Newman Interface Access Device (BBN-IAD)

Two machines were found to have port 1030 and another machine was found to have port 1031 open. Both of these ports normally indicate the BBN-IAD service.

Port 1033 – local netinfo port

Two machines were found to have port 1033 open, which normally indicates the local netinfo service. However, this port was also noted as being associated with the Dosh and Eurosol 6.0 trojans.

Port 1036 – radar service protocol (pcg-radar)

One machine was found to have port 1036 open, which normally indicates radar service protocol.

Port 1037 – Area Message Service (AMS)

Two machines were found to have port 1037 open, which normally indicates the AMS service. However, this port was also noted as being associated with the Dosh and Mosucker Trojans.

Port 1040 – netsaint status daemon (netarx)

One machine was found to have port 1040 open, which normally indicates the netsaint status daemon service.

Port 1045 – Fingerprint Image Transfer Protocol

One machine was found to have port 1045 open, which normally indicates the Fingerprint Image Transfer Protocol.

Port 1048 – Sun's InterNet Entity Object (NEO) Object Request Broker

One machine was found to have port 1048 open, which normally indicates the Sun's NEO Object Request Broker service.

Port 1248 – hermes

One machine was found to have port 1248 open, which normally indicates the hermes service.

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-7: The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)****Port 1347 – multi media conferencing**

One machine was found to have port 1347 open, which normally indicates multi media conferencing. While the name would suggest a legitimate business purpose for having this port open, research suggested that port 1347 was vulnerable to (DoS) attacks.

Port 1370 – unix shell to globalview (us-gv)

One machine was found to have port 1370 open, which normally indicates the existence of the unix shell to globalview service. This port was identified on this machine during the prior year audit.

Port 1414 – ibm-mqseries

One machine was found to have port 1414 open, which normally indicates the existence of the ibm-mqseries service. This port was identified on this machine during the prior year audit.

Port 1454 – interhdl license manager (interhdl_elmd)

Three machines were found to have port 1454 open, which normally indicates the existence of the interhdl license manager service. This port was identified on these machines during the prior year audit.

Ports 1540 and 1541 – Report Management Distribution System (Rds)

One machine was found to have ports 1540 and 1541 open, which normally indicates the Rds service.

Port 2025 – ellpack

One machine was found to have port 2025 open, which normally indicates the ellpack service.

Port 2101 – Radio Technical Commission for Maritime Services Special Committee No. 104 (RTCM-SC104)

One machine was identified as having port 2101 open. This machine was also noted during the prior year's review. Port 2101 carries the industry-standard format, RTCM-SC104, for sending differential corrections to Global Positioning Systems (GPS). This port was identified on this machine during the prior two years' audits.

Port 2636 - Solve

Three machines were found to have port 2636 open, which normally indicates the Solve service.

Port 3001 – Redwood Broker

One machine was found to have port 3001 open, which normally indicates that the Redwood Broker service is running.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-7: The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

Port 3002 – RemoteWare Server

One machine was found to have port 3002 open, which normally indicates that this is the RemoteWare Server.

Port 3003 – Copy Generation Management System (CGMS)

One machine was found to have port 3003 open. Originally, it was thought that this port was used as the Copy Generation Management System (CGMS); however, given the banner that was received through the vulnerability tools used during this review, it appears to be running CICS (Customer Information Control System). If the security settings for CICS are not set properly, an intruder could obtain userid and password credentials. This machine was also noted during the prior two-year's review.

Port 3336 – Compaq Information Manager (CIM)

One machine was found to have port 3336 open. Originally it was thought that this port was running the Direct Television Tickers service; however, CHFS is using this port to run the CIM service.

Port 7000 – file server itself

Two machines were found to have port 7000 open, which normally indicates that this is a file server.

Port 8000 – Installation Restoration Data Management Information System (iRDMI)

Three machines were found to have port 8000 open, which normally indicates that the IRDMI service is running.

Port 8080 – HTTP Alternate

One machine was found having port 8080 open that would not display a legitimate webpage.

Port 10000 – Network Data Management Protocol

One machine was found to have port 10000 open, which normally indicates the Network Data Management Protocol.

The existence of unused open ports, default profiles, and outdated system software increase potential security vulnerabilities and is an invitation for intruders to enter the system. Further, system configuration information would be intriguing to a hacker and should be restricted.

To minimize the risk of unauthorized access to a machine, only necessary business-related ports should be open, default profiles should be avoided, and system software should be kept up to date. Further, information concerning system configuration should not be made publicly available.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-7: The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

Recommendation

We recommend that CHFS review all open ports to ensure there is a specific business-related purpose requiring the port to be open. If not required, then that port should be closed. If the port is necessary then CHFS should ensure the most recent patches are implemented for the service in use, applications are kept updated, and that adequate logical security controls are implemented to prevent unauthorized access as necessary. CHFS should disable any default profiles.

Management Response and Corrective Action Plan

After receipt of the detailed port listing, we have reviewed the reports and corrective action has been taken on the ports that no longer need to be open. Ports without valid business reasons have been closed. COT was consulted regarding the open ports on the mainframe, which they control and ports that are not required for business reasons are also closed.

FINDING 06-CHFS-8: The Cabinet For Health And Family Services Should Ensure Security Information Leakage For Devices Is Minimized

As noted in the three prior audits, CHFS did not restrict critical information divulged by its network machines. During our FY 06 examination of security governing the local area networks (LANs) we discovered several instances in which machines within the LANs provided information that could potentially assist an intruder in developing an approach to attack the system.

We ran vulnerability assessment tools during the current fiscal year on 53 machines within the CHFS domains to determine if information would still be returned for Local Security Authority (LSA) and Password Policies. Although there has been significant improvement in the number of machines providing information to anonymous users, there were still seven (7) machines that provided one or more of these types of information. All seven (7) of these machines were reported during FY 05; six (6) of these machines had also been reporting during FY 04. The table below depicts the number of machines that would provide this information.

Type of Information	Number of machines providing information	Percentage of 53 machines providing information
LSA	7	13.2%
Password Policies	5	9.4%
Valid User List	5	9.4%
Valid Group List	4	7.5%
Valid Share List	5	9.4%

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-8: The Cabinet For Health And Family Services Should Ensure Security Information Leakage For Devices Is Minimized (Continued)**

The agency had indicated in their response during the FY 05 audit that it might not be possible or feasible to restrict anonymous access to certain servers due to their function or the platform being used. It was noted that most of the machines were running MS Windows NT 4.0, an "Operating System (OS) [which] is not capable of being configured to disable anonymous enumeration." The agency did not, however, indicate which machines were running MS Windows NT 4.0 in their response to the FY 05 comment.

If a machine is allowed to provide excessive information associated with the machine to an anonymous user, then an intruder could potentially use this information to attempt to gain access to the machine or network.

An agency's domain information that is accessible to users of the Kentucky Information Highway through inquiry tools should be kept at a minimum. Agencies should ensure that information such as location, accounts associated with the machine, type of data residing on the machine, and the machine's role is not divulged or is stated in the most minimal of terms. To accomplish this, an agency can set devices to not respond to certain types of inquiries. Research indicates that Windows NT 4.0 with Service Pack 3 (SP3) provides the capability to restrict anonymous users from obtaining system information. There is further strengthening of this feature with Service Pack 4 (SP4) when SP3 allows anonymous connections to obtain the password policy from a Window NT server even with RestrictAnonymous access enabled.

Recommendation

We recommend that CHFS continue their efforts to restrict the level of information provided by their LAN machines to anonymous users. This strengthening process should include, where feasible, limiting or restricting the type of response machines provide based on certain inquiries.

Management Response and Corrective Action Plan

We agree that the leakage of information is a vulnerability. The areas with issues were in the former CHS and CFC NT4.0 domains. Corrective action has been taken to restrict the anonymous users from listing domain user names and enumerate share names. This has only been possible as a result of CHFS merging domains into the new CHFS domain and use of AD during this past year.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-9: The Cabinet For Health And Family Services Should Develop Automated Analysis Procedures To Identify High Risk Transactions Within Benefit Programs

During FY 05, certain audit procedures were performed within selected CHFS benefit systems to identify lax or weak program control procedures. The following CHFS benefit systems were included in that review:

- Family Alternative Diversion (FAD)
- Kentucky Transitional Assistance Program (KTAP)
- Special Circumstances Payments
- System Tracking Employability Program (STEP)
- State Supplemental Payments
- Medical Assistance Payments
- Food Stamps

Our FY 06 audit of CHFS revealed that procedures have not been implemented to fully address all of our prior year recommendations to improve controls. Within FY 06, CHFS management has worked toward strengthening program controls including:

- The assignment of an employee within the Division of Family Support to perform monthly monitoring of data and report findings.
- The implementation of quarterly testing to be performed on systems to ensure that system edits that are designed to deny duplicate payments for benefits within the same benefit period are working properly.

However, we noted that three of our prior year recommendations concerning lax or weak program control procedures had not been fully addressed. Those recommendations involved the development, implementation, and consistent application of the following control procedures to proactively monitor program benefit payments:

- An automated process using the Personnel Cabinet employee personnel file data available to match employees of the Department of Community Based Services (DCBS) offices against program benefit payments.
- A series of automated processes that would first identify those cases with the home or mailing address outside the state of Kentucky and then identify benefits mailed to an address outside of Kentucky.
- An automated process to identify all payments from the systems that are sent to a DCBS file office address.

The auditor is aware that the agency has begun the process of developing reports that would address these areas. However, the reports have not been scheduled to be implemented for use by the agency until August 2006.

As stewards of state and federal funds, it is imperative that agencies develop and consistently apply safeguards to identify and prevent misappropriation of these funds.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-9: The Cabinet For Health And Family Services Should Develop Automated Analysis Procedures To Identify High Risk Transactions Within Benefit Programs (Continued)

Such safeguards include, but are not limited to, using automated edits to ensure that input data complies with state and federal regulations and using automated reporting to highlight benefit payment transactions with a higher risk for misappropriation of funds that should be subjected to further scrutiny.

Recommendation

We recommend that the agency continue the planned development and implementation of reports related to the following areas:

- DCBS personnel match to benefit payments.
- Benefit payments with home or mailing addresses outside of Kentucky.
- Benefit payments sent to a DCBS field office address.

We further recommend that the implementation of the suggested control procedures be expedited, if possible.

Management Response and Corrective Action Plan

The Personnel Cabinet has provided Office of Information Technology (OIT) with the DCBS employee's data. On February 6, 2006, OIT received the response from the Auditors. On February 10, 2006 there was a meeting to discuss the Auditors findings between OIT and CBS. OIT held an internal meeting on February 10, 2006 to determine high level estimates for the requirements, development and testing of the new reports that were recommended by the auditors. OIT then set up a meeting in March 2006 to gather requirements, complete analysis, and assign change control requests to the analysts. After gathering the requirements, OIT then wrote the Change Control Requests (CCR's). The CCRs were written between April 2006 and May 2006. On May 11, 2006 all the CCR's were scheduled for release 258. The development for release 258 was June 2006. Samples of the test reports were provided to the auditors on June 26, 2006. Testing was scheduled and completed for release 258 in July 2006. The reports were moved into production on August 7, 2006.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-10: The Cabinet For Health And Family Services Should Review System Edits Related To Program Limitations

During FY 05, certain audit procedures were performed to identify transactions within selected CHFS benefit systems that had a higher risk for misappropriation of funds. Testing performed in FY 05 revealed that certain systems did not appear to have edits functioning to help identify or prevent transactions that should either be disallowed or that should be subjected to additional scrutiny by CHFS employees. Specifically, edits were identified that appeared to not be functioning as expected within the FAD and STEP systems.

Our audit of CHFS for FY 06 revealed that none of our prior year recommendations related to the need to review system edits were fully addressed during FY 06. However, CHFS management has worked during FY 06 to strengthen review procedures over system edits. The agency reviewed the edits specifically noted as potentially having problems within the FAD and STEP systems and found that the errors could have been caused by returned checks returned from the system or multiple payments being made within the same month, but for different periods.

The auditor is aware that the agency has begun the process of developing reports that would address these areas. Although development began in FY 06, the agency has not scheduled the reports for implementation until August 2006.

Further, CHFS began the Kentucky Access, Accuracy, and Accountability Project (KAAAP) during FY 06, which when completed will help establish the direction needed to integrate all the major DCBS systems. It is anticipated that this project will take several years to complete; therefore, the consideration of the specified edits will not come to fruition until the new integration system is implemented.

When limitations on benefits are prescribed by federal or state legislation, these limits should be applied to all related claims. If system edits are relied upon to enforce these limitations, then the claims should be periodically reviewed to ensure that the edits are functioning as expected. Overrides of established system edits should be limited and should be subjected to appropriate subsequent review by management.

Recommendation

We recommend that the agency continue the planned development and implementation of reports related to the following areas:

- FAD benefit payments deleted after issuance
- STEP benefit payment recipients with multiple Work Incentive payments – same calendar month but different benefit periods
- STEP benefit payments deleted after issuance

Further, we recommend that the agency continue to closely monitor the KAAAP project to help ensure that all major edits are considered for inclusion within the new integrated system.

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-10: The Cabinet For Health And Family Services Should Review System Edits Related To Program Limitations (Continued)**

Management Response and Corrective Action Plan

On February 6, 2006, the Office of Information Technology (OIT) received the response from the Auditors. On February 10, 2006 there was a meeting to discuss the Auditors findings between OIT and Department of Community Based Services (CBS). OIT held an internal meeting on February 10, 2006 to determine high level estimates for the requirements, development and testing of the new reports that were recommended by the auditors. OIT then set up a meeting in March 2006 to gather requirements, complete analysis, and assign change control requests to the analysts. After gathering the requirements, OIT then wrote the Change Control Requests (CCRs). The CCRs were written between April 2006 and May 2006. On May 11, 2006 all the CCR's were scheduled for release 258. The development for release 258 was June 2006. Samples of the test reports were provided to the auditors on June 26, 2006. Testing was scheduled and completed for release 258 in July 2006. The reports were moved into production on August 7, 2006.

KAAAP is a three-phase project and CHFS is currently in phase I of the project. We have recently selected the quick wins, which will now require a more detailed analysis. The Quick Wins will be implemented in phase II of the project.

The Advanced Planning Document (APD) and RFP process will begin in September to gain Federal approval for the selected Quick Wins. Upon receipt of Federal approval, we will release the RFPs, begin vendor selection and award the contracts to begin work on the Quick Wins. We anticipate the Quick Wins implementation (Phase II) will be completed in March of 2008.

Phase I will also produce a long-term (Optimal) solution that will determine the funding needed for Phase III and detail the functional and technical requirements to complete the re-engineering of Kentucky Automated Management Eligibility System (KAMES). Phase III will require approval of a 2008-2010 Capital Project. This project will build on the progress and improvements of Phase II (Quick Wins Phase) to take the next steps in completely rewriting the KAMES legacy application and integrating the satellite systems; such as STEP, FAD, Long Term Care (LTC), Public Assistance System (PA-62), etc., if future funding is approved for 2008-2010.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-11: The Cabinet For Health And Family Services Password Policy Should Be Consistently Applied To All Local Area Network Servers

As was noted in the prior two audit reports, password policies established on certain critical CHFS machines did not adhere to the Commonwealth Office of Technology (COT) or CHFS password policies. During the FY 06 audit, testing was performed to determine the accessibility of the password policies of machines within the various CHFS domains using vulnerability assessment tools. Password policies obtained were reviewed for compliance to established policy standards.

Of 53 machines tested, we were able to obtain the password policies for five (5), or approximately 9.4 percent, of these machines. However, only two (2) of these machines were noncompliant with one or more security settings of the established password policy. These two (2) machines were also noted during the prior two years' review. See the table below for summary of our findings.

Security Measure	COT Security Policy	Noted Settings - Number of machines noncompliant
Minimum Length	8 characters	7 characters – 1 None – 1
Minimum Age	1 day	None – 2
Maximum age	31 days	42 days – 1
Lockout Threshold	4 attempts	None – 1

If password policies are weak and inconsistently applied, the agency could potentially be vulnerable to unauthorized access or disruption of service caused by an intruder. The failure to follow adequate policy standards when establishing a system password could ultimately compromise the entire network.

Passwords are a significant feature to guard against unauthorized system access. The purpose of a password policy is to establish a standard to create strong passwords, to protect those passwords, and to ensure passwords are changed within a specified time period. To assist in the security of a network, it is necessary for a strong policy to be developed and consistently implemented on all machines throughout the network.

Recommendation

We recommend that CHFS periodically review all machines within its agency-owned domains to ensure that the password policy established on the machines comply with the guidelines specified by the agency and COT.

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-11: The Cabinet For Health And Family Services Password Policy Should Be Consistently Applied To All Local Area Network Servers (Continued)**

Management Response and Corrective Action Plan

We agree that password security is a significant feature to guard against intrusion into our systems. With the migration of the former CFC and CHS NT4.0 domains into the CHFS AD domain, the password criteria and policy has been strengthened to conform to COT standards. CHFS will review processes to assure that appropriate measures are in place to protect the integrity of the Cabinet's network.

FINDING 06-CHFS-12: The Cabinet For Health And Family Services Should Strengthen Logical Security Procedures Surrounding Mainframe Applications

The CHFS OIT did not adhere to established procedures concerning logical security governing the KAMES, the FAD, and the STEP programs.

The CHFS Request for RACF Mainframe Clearance Policies and Procedures document states that in order to gain access to the mainframe applications, users must complete the Request For RACF Mainframe Clearance (form CHFS-219A). In addition, users requiring access to KAMES must complete the Request For KAMES UserId (form CHFS-219B). Our examination of 75 request forms for new users to determine compliance with the established procedures for granting access within KAMES, FAD, and STEP revealed:

- Supervisor initials providing authorization for specified access were missing from the CHFS-219A form for two users (one instance noted for FAD access; one instance noted for STEP access).
- User signature was not provided in Section 2 of the CHFS-219B form for one user (instance noted for KAMES access).
- Documentation was not found for the rationale to change the User Type from that requested on the CHFS-219B forms for 29 users (instances noted for KAMES access).

It was noted that the need for situations such as the third bulleted issue noted above sometimes occur because the supervisor or other authorized signer has not had adequate training to ensure that the most appropriate User Type is chosen. Failure to consistently apply logical security controls could lead to a lack of understanding by management and users that could result in a failure to comply with security policies, failure to perform assigned security responsibilities, or inappropriate and inefficient use of system resources. This situation increases the risk of unauthorized data modification, destruction of assets, interruption of services, or inappropriate or illegal use of system resources.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-12: The Cabinet For Health And Family Services Should Strengthen Logical Security Procedures Surrounding Mainframe Applications (Continued)

Established security policies and procedures should be consistently applied to provide continuity for policy implementation and set the tone of management concern for a strong system to secure assets and resources. Record of any changes made to requested access should be maintained with the user's security file to ensure that supporting documentation is available if these decisions are ever questioned.

Recommendation

We recommend that the CHFS OIT ensure that only properly authorized system access is granted to users. The required forms should be completed in a consistent manner. All authorizing signatures and initials must be in place on the CHFS-219A and CHFS-219B forms prior to granting an employee access to any mainframe applications. If a situation arises where a different access level should have been requested, such as an inappropriate User Type within KAMES being requested for a new employee, OIT should document this situation and the change in access level within the user's security file.

Additionally, OIT should ensure that all supervisors and authorized signers for the CHFS-219B forms are properly trained on the logical security procedures documented in the Request for RACF Mainframe Clearance Policies and Procedures so that they can request access to the appropriate User Type for their employees.

Management Response and Corrective Action Plan

- *Response to first bullet in Condition – When all signatures were in place on the CHFS 219A, and a supervisor failed to initial a selection for a specific program on the back of this form, staff in security would contact the supervisor or manager by phone to evaluate the need for access and the need to expedite the access. If access was needed immediately to allow the user to begin work, we would accept approval by phone for the program access they failed to initial. Our office failed to document this phone call in users security file.*
- *Corrective Action Plan to first bullet in Condition – Security Office will return all forms which are incomplete according to our procedures, no exceptions. A Deficiencies Form will be returned to the supervisor outlining any deficiencies of the CHFS 219A or CHFS 219B. Email will be sent to supervisor to alert them that the form is being return for correction. This will delay access for our end users, and train the supervisors to take time to read current procedures for completing these forms accurately.*

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-12: The Cabinet For Health And Family Services Should Strengthen Logical Security Procedures Surrounding Mainframe Applications (Continued)

Management Response and Corrective Action Plan

- *Response to second bullet in Condition – This was a mistake/oversight of the staff person responsible for providing access to this user.*
 - *Corrective Action Plan to second bullet in Condition – Staff understand the importance of all signatures being complete on each form. Security Office will return all forms which are incomplete according to our procedures, no exceptions. A Deficiencies Form has been developed and will be returned to the supervisor outlining any deficiencies of the CHFS 219A or CHFS 219B. Email will be sent to supervisor to alert them the form is being returned for correction. This will delay access for our end users, and train the supervisors to take time to read current procedures provided to them for completing these forms accurately.*
- *Response to third bullet in Condition – Eight of these users were staff from the Department of Protection and Permanency. The supervisor had requested access as a User Type 01 for KAMES on the CHFS 219B. This User Type is designated for case decision eligibility caseworkers for Family Support. Standard procedures are for P&P staff to only have User Type 14 which is inquiry/read access to KAMES. Phone calls were made to supervisor to question access and supervisors actually wanted Inquiry (14) Access. Documentation of these phone calls was not placed in the Users Security file. In this instance the user was being granted less access to KAMES, only the ability to read KAMES data, and not update as requested. The remaining twenty-one cases mentioned were situation where supervisor requested User Type 01 for KAMES, designated for case decision eligibility caseworkers for Family Support. Major Job Function field on CHFS 219A shows user is Caseworker Specialist I, which standard procedures are for these caseworkers to not have case decision, in other words all their casework will not process until the supervisor reviews/approves case, therefore no benefits are issued to client until supervisor review for User Type 16. Phone calls were made to supervisor and documentation of phone call was not placed in Users security file. In this instance less access for given to User, which prevented case error or incorrect benefits from being issued, due to fact supervisor had to review all case information.*

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-12: The Cabinet For Health And Family Services Should Strengthen Logical Security Procedures Surrounding Mainframe Applications (Continued)

Management Response and Corrective Action Plan

- *Corrective Action Plan to third bullet in Condition - When CHFS-219B is received which meets this situation, the security staff person processing this form will contact the immediate supervisor or manager by email to verify accuracy of requested access. The email of this verification will be placed in the Users Security file for documentation as to why a different User Type was granted to this individual. Wording for User Type in section 1 of the CHFS 219B will be changed as follows. 01 Caseworker and 16 Probationary will be replaced with 01 Case Decision Caseworker and 16 to Probationary Non-Decision Caseworker.*
- *Corrective Action Plan to Recommendation for OIT to Train Supervisors and Authorized Requestors – This recommendation was addressed by meeting with Deputy Commissioner of DCBS and Director of Family Support. Security Office has agreed to answer questions if DCBS staff does not understand how to complete the forms correctly. DCBS plans to contact the CHFS Training Branch to seek training for their staff in this area, and also include information concerning Security access in their policy manuals. CHFS Security Office is also going to create an extra page to be attached to the CHFS 219A and CHFS 219B, which will be brief comments on correct/normal access to be requested for each agency due to the fact the other policy and procedures for completing the forms are several pages in length.*

FINDING 06-CHFS-13: The Cabinet For Health And Family Services Should Strengthen And Consistently Apply Employee Termination Procedures

Our FY 06 audit of the CHFS logical security procedures related to mainframe applications revealed that the OIT did not consistently apply procedures established to ensure that system access is revoked in a timely fashion for terminated employees or employees on extended leave.

Currently, the established CHFS Request for RACF Mainframe Clearance Policies and Procedures document stipulates that it is the responsibility of the employee's supervisor to notify OIT when an employee is terminated, resigns, or transfers. Further, OIT established procedures to use inactivity reports to identify user identifications (IDs) that have been inactive for a six-month period. When OIT is informed about the need to delete a RACF ID or it appears on the six-month inactivity report, OIT's policy is to put the ID in revoke status so that the user can no longer use the ID to access the mainframe and mainframe

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-13: The Cabinet For Health And Family Services Should Strengthen And Consistently Apply Employees Termination Procedures (Continued)

applications. All application access tied to the username should also be deleted. Since CHFS reuses their user ID, a list of all revoked IDs is sent to COT every quarter and COT will ensure that everything is wiped from the ID. In addition to these steps, the Personnel Cabinet (Personnel) has created an agency-specific report that displays CHFS employee actions effective during the first and second part of each month that would list these terminations or transfers.

Our examination of terminated employees and employees on leave from CHFS with access to the Kentucky Automated Support and Enforcement System (KASES) and KAMES during FY 06 revealed:

- 32 KASES users whose access had been removed at the RACF level; however, the access to the KASES application was still active. One (1) of these users was not found on the Personnel report of employee actions.
- 7 KASES users whose access at neither the RACF nor KASES level had been removed. These users were not found on the Personnel report of employee actions.
- 2 KAMES users whose access had been removed at the RACF level; however, the access to the KAMES application was still active. One (1) of these users was not found on the Personnel report of employee actions.
- 3 KAMES users whose access at neither the RACF nor KAMES level has been removed. These users were not found on the Personnel report of employee actions.

Further, there was one instance found where the incorrect social security number (SSN) had been recorded in a user's security profile that had access to KAMES, FAD, and Kentucky Claims Debt Management (KCD). This error was discovered because the incorrectly recorded SSN matched an employee who had retired from CHFS within FY 06. It appears that this mistake occurred when a change was made in the user's access.

The Division of Personnel Administration (DPA) has created a new CHFS Supervisor Clearance/Checklist/Transition for Exiting Employees document that is to be used by the departing employee's supervisor to ensure that all exit procedures are followed. Although there is a section of this form that addresses the cancellation of security access, it only covers network and email access. There is no reference to access to RACF or other mainframe applications.

If employees are not terminated according to established procedures, both logical and physical security could be compromised. Since OIT reuses RACF IDs, it is imperative that all mainframe application access is terminated along with RACF revocation.

Development and consistent application of termination policies and procedures provides continuity for policy implementation and sets the tone of management concern for securing information system assets and resources. Prompt notification of employee terminations protects the agency from the risk of potential disruption of services and data and property loss.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-13: The Cabinet For Health And Family Services Should Strengthen And Consistently Apply Employees Termination Procedures (Continued)

Recommendation

We recommend that the OIT strengthen its existing termination procedures by incorporating the following procedures:

- OIT and DPA should work closely together to ensure that controls are in place to remove access to the mainframe applications promptly upon termination of employment.
- OIT should develop a new form that is used to request revocation of mainframe access. This form could be modeled after the form developed to revoke network and email access.
- OIT should work with DPA to revise the CHFS Supervisor Clearance/Checklist/ Transition for Exiting Employees document to include a section for supervisors to acknowledge that they have notified OIT that an employee's mainframe access needs to be revoked. This new section should reference the new form recommended above, which would be submitted to OIT in conjunction with completion of the DPA form.
- OIT should work with Personnel to improve the effectiveness of the employee action report. A possible solution to ensure that all actions are included on the listing is to base the report on the date the personnel action was received instead of the effective date.
- OIT should review mainframe security profile information when fulfilling change requests to ensure that personal information, such as social security numbers, are not inadvertently altered.

Management Response and Corrective Action Plan

- *Response to first bullet in Condition - Prior to April 15, 2006 when staff processed the PERHRRRA7 report from personnel we would have to contact the Department of Child Support to removed access from KASES Application for individuals terminated or on leave. That function of KASES Security Administration is now the responsibility of this Office, which will allow better coordination of this function.*
 - *Corrective Action Plan to first bullet in Condition – CHFS OIT Security Office will request OIT Mainframe Systems Management Branch staff to write a Database Change Request (DCR) to add a new field to KASES database which tracks the "Last logged on System Date" so a quarterly report can be completed to track non-use of KASES. Security Office will monitor this report and act on appropriately.*

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-13: The Cabinet For Health And Family Services Should Strengthen And Consistently Apply Employees Termination Procedures (Continued)

Management Response and Corrective Action Plan

- *Response to second bullet in Condition – Supervisors did not notify the Security Office of these actions, they did not appear on the PERHRRRA7 report and 6 months non-use for RACF ID notification from COT had not occurred when this report was pulled from KASES databases for the auditors. Therefore we had no knowledge these staff had retired/resigned from our agency.*
- *Corrective Action Plan to second bullet in Condition – CHFS OIT Security Staff met with Department of Personnel staff on April 18, 2006, to request changes in the PERHRRRA7 report. Personnel Department has agreed to create a new report as of June 20 and the request is now in development. They will create a new weekly report which will be based on the Approval Date of each action, rather than the Effective date, and would be compared to the most recent PERHRRRA7 report to remove any duplicates.*

The CHFS Network Help Desk will forward all OIT AR Network Request forms which request deletions of Network Access to the Security Office and the Security Office will check for Mainframe and Application Access for all these request.

- *Response to third bullet in Condition – One of these users had a Health Services Userid and the KAMES access was overlooked during the clean up of her ID. The other user was on the PERHRRRA7 report. It appears that Security staff could not locate this users security file at the time this report was being worked. Staff has concluded that after several days of searching for her file, they failed to follow up on completing this action.*
- *Corrective Action Plan to third bullet in Condition – PERHRRRA7 reports will not be annotated and filed until all actions are completed. All HS and HR ID's will be checked to see if they have access to KAMES application even if users security file does not include historical information of access being granted to this application due to fact HS security administration was handled in HS Security Office before the merger of CHFS. CHFS OIT Security Office has requested the CHSF OIT Mainframe Management Branch, KAMES Section to write Change Request 26038 to correct a problem identified during this audit for the HRKRMRO6. This is a quarterly report that identifies users which have not logged on KAMES in the prior six months. This report was not picking up userids which did not have a Caseload attached to Userid. Neither of these ID's were Family Support Caseworkers, therefore they did not have a caseload attached to Userid.*

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-13: The Cabinet For Health And Family Services Should Strengthen And Consistently Apply Employees Termination Procedures (Continued)

Management Response and Corrective Action Plan

- *Response to fourth bullet in Condition – Supervisor did not notify the security office these users retired or resigned, they did not appear on PERHRA7 report, and effective date of their actions was within the prior six months, so they had not appeared on the non use reports for RACF ID's or HRKMR06. Security had no way to know that these users were to be deleted, therefore no violation occurred within our policy and procedures.*
 - *Corrective Action Plan to fourth bullet in Condition – The new report from the Personnel Cabinet and changes to the HRKMR06 will allow Security Office to be notified in the future.*
- *Response to User With Incorrect Social Security Number in Condition - This was an error on the part of the security staff in typing the social security number for this individual. Currently the KAMES system does not have an edit to prevent duplicate SSN numbers on the security database.*
 - *Corrective Action Plan to User With Incorrect Social Security Number in Condition – CHFS OIT Security Help Desk has contacted the CHFS OIT Mainframe Management Branch, KAMES Section to request a Change Control be submitted to create an edit on HRKIMS05 screen of the security maintenance functions. Once implemented into production the functionality would not allow a duplicate SSN number to be entered on the E1 database. OIT Security has also requested a SAS job to be run to check all SSN numbers on the E1 and provide a report of any current duplicate SSN's. These will be cleaned up immediately if others are identified.*

One additional corrective action which is now in place is to add information on a database which will identify RACF ID's which are assigned to Contractors. Since these employees do not appear on our personnel report, this would allow us to track non-use of contractor Id's.

- *Corrective Action Plan to Recommendation concerning the CHFS Supervisor Clearance/Checklist/Transition for Exiting Employees document – CHFS OIT Security previously had a discussion with staff in the Department of Personnel. On May 16, 2006 we submitted a request for personnel to add a block to CHFS Supervisor Clearance/Checklist/Transition for Exiting Employees document. By doing*

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-13: The Cabinet For Health And Family Services Should Strengthen And Consistently Apply Employees Termination Procedures (Continued)****Management Response and Corrective Action Plan**

this all supervisors would be required to send an e-mail to CHFS OIT Security Helpdesk for exits. We will ask that personnel include a link on the form so that once they click on the link the email will open up for them to send us this information.

A recommendation from the auditor was given for us to create a form like the AR Request form to report all deletions of network accounts. Reasons for not agreeing with recommendation is that we currently request the supervisor to send us an email advising us of this, and that doesn't happen. To require them to go and complete a form and then email us the information would be an added step for them that they currently do not do anyway. We feel that once this is added on the exit checklist, this should resolve this issue.

FINDING 06-CHFS-14: The Department For Medicaid Services Should Strengthen Monitoring Over The Change Control Process

During testing of documentation maintained by the CHFS within the Project Workbook (PWB) application to support program change requests related to the Kentucky Medicaid Management Information System (KMMIS), the auditor found several instances where documents were not being consistently maintained that should have been created in compliance with the established change control process.

During FY 06, CHFS made considerable revisions to the program modification process. These revisions included a new Change Control Process document that incorporated procedures established by Electronic Data Systems Corporation (EDS) and the use of the PWB as the central repository for documentation supporting program changes. The documentation that should be maintained in the PWB includes such items as System Design Change Request (DCR/DRF) forms or Medicaid Inter-Office System Change Request (MISCR) forms and formal letters of completion. Discussions between the DMS and EDS analysts to solidify and clarify issues may also be found documented in the PWB. These discussions are normally done through meetings, telephone calls, and e-mail messages. When consistently applied, these procedures should provide assurance that all changes have been appropriately planned, authorized, tested, approved, and moved into production.

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-14: The Department For Medicaid Services Should Strengthen Monitoring Over The Change Control Process (Continued)**

The auditors examined 22 of the 68 change requests completed by EDS related to KMMIS, or 32.4 percent of completed requests. Testing of these 22 requests revealed:

- Six instances, or 27.3 percent of tested requests, where a required letter from EDS was not found which would have explained when the requested changes had been made, testing had been performed and approved by DMS staff, the change had been moved into production, and any documentation had been provided for the agency review and written approval.
- Two instances, or 9.1 percent of tested requests, where a required letter from DMS was not found that would document concurrence with EDS that the requested change had been completed and, if applicable, provided approval of the documentation change.
- One instance, or 4.5 percent of tested requests, where neither the required DCR/DRF form nor the MISCR form was provided.

The agency was informed of the identified missing documentation on May 22, 2006. A subsequent review of PWB revealed that the documentation had been located for the change order noted above that was missing a DCR/DRF or MISCR form and that was reflected in PWB. Also, all of the completion letters from EDS that had been missing were located and placed with the appropriate change order. However, it was noted that two of the letters were dated as of May 23, 2006, even though the changes had been placed in production in January 2006 and March 2006, respectively. It is apparent that these two letters were not created during the normal change control process, but were created as a result of our initial findings. Further, the associated acknowledgement letters from DMS had still not been created or placed on PWB.

Failure to properly apply and monitor change control procedures increases the risk that incorrect or unauthorized changes could be made to critical applications and, potentially, be moved into the live production environment.

Program modification control procedures should be consistently applied in order to ensure that only appropriately authorized changes to critical applications are made and implemented within the production environment. Consistent monitoring of the change control process helps ensure adequate documentation exists for all changes and that the changes made are acceptable by the user departments prior to implementation.

Recommendation

We recommend that DMS more closely monitor the Change Control Process to ensure that all procedures and required documentation to support program change requests are developed and placed into the PWB in a timely fashion. Further, we recommend DMS perform a review of all currently completed requests and work with EDS to place any missing documentation into the PWB.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-14: The Department For Medicaid Services Should Strengthen Monitoring Over The Change Control Process (Continued)

Management Response and Corrective Action Plan

Since the transition of the MMIS system from Unisys to EDS, the Department for Medicaid Services (Department) has been working with EDS to strengthen the change request process by tracking additional requests through System Design Change Requests and System Design Request Forms (DRF's) even though some of these requests do not follow the normal System Development Life Cycle (SDLC) process. DRF 436 and 343 are two examples of changes now tracked through this process. Both of these requests relate to the tracking of updates to a particular line of code to allow for an exemption from the 21-day cash management hold. These requests track the operational activities of a process that was previously designed, coded, and tested in a prior audit period. The Department feels it is important to track these operational requests as part of the existing DCR/DRF process so one central repository is used. We believe that adding these cash management exemptions to the change request process has improved our ability to track these requests. We plan to refine this process even further this year by requiring the posting of all documentation/letters to the PWB prior to the actual sign-off of the change request. The Department is currently working with EDS to have this requirement formally added to the MMIS operational report card.

The Department will also perform a review of all currently completed requests and work with EDS to place any missing documentation into the PWB.

FINDING 06-CHFS-15: The Cabinet For Health And Family Services Should Ensure Completeness Of Contractual Requirements Related To The Public Consulting Group Contract

During our FY 06 audit of the CHFS we reviewed the progress made to improve the Medicaid Buy-In Program. The auditor found that CHFS did not specifically abide by the requirements of the contract as it applies to notifying the contractor, Public Consulting Group (PCG), of the phase of work to be completed.

According to the clause of PCG's contract, "[t]he Department shall have sole discretion in choosing those levels of services that are to be provided by the Contractor. The Contractor shall not be entitled to payment for any level services or work not requested by the Department in writing." From these statements, it was expected that CHFS would have provided a written letter or memo to PCG authorizing the move from the "Assessment Phase" into either the "Rebuilding Consultation Phase" or the "Take Over Phase."

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-15: The Cabinet For Health And Family Services Should Ensure Completeness Of Contractual Requirements Related To The Public Consulting Group Contract (Continued)

Documentation provided to the auditor by PCG supporting the authorization for transition into the “Take Over Phase” was a letter written on July 8, 2005, by the DMS Commissioner. This letter authorized PCG to move from the “Assessment Phase” to the “Rebuilding Consultation Phase.” Specifically, this expansion will require PCG to provide “the Department with advice on improving and implementing changes to the existing Buy-In process.” However, discussions revealed that PCG was currently already in the “Take Over Phase” of work. No additional letters or memos had been sent to PCG that would authorize the move into this phase of work. It appears that the July 8 letter was intended by both PCG and DMS management to give this authorization, contrary to the terminology used.

Although, based on discussions with the agency and review of documentation provided by PCG, it is obvious that CHFS expected PCG to move into the “Take Over Phase” of the work, the process as laid out in the contract clause to authorize the move among phases of work was not properly followed.

When contract requirements are not properly followed, management may not have a firm grasp on the progress of work being performed or may cause contract payment to come into question.

Contracts are written to explicitly state criteria and procedures to be followed. These criteria and procedures are developed to make certain that all parties are cognizant of their responsibilities and that the desired end product of the contract is achieved.

Recommendation

We recommend that CHFS formally document the fact that PCG actually moved into the “Take Over Phase” of work as of July 8, 2005, with the agency’s agreement. Further, the agency should be more diligent going forward in their association with PCG to ensure that all contract requirements are appropriately competed.

Management Response and Corrective Action Plan

In response to the audit findings, the Department has formally documented through written correspondence that PCG did in fact move into the “Take Over Phase” of work as of July 8, 2005. The Department intended and authorized PCG to move into the final phase of work. The Department has been fully cognizant of PCG’s work efforts and the status of the project throughout the past year. Several staff members work with PCG on a regular basis to ensure that the buy-in program is monitored and tracked on a daily basis.

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-16: The Cabinet For Health And Family Services Should Ensure System Error Within State Supplementation Is Corrected**

During our FY 06 audit of benefit system controls implemented within the CHFS we noted the agency had identified a specific condition under which State Supplementation cases could be issued a second payment for the same month. This situation was identified during the last quarter of FY 06 when CHFS was performing quarterly tests on several benefit systems to determine whether edits established to prevent duplicate benefits were working as expected.

The auditor is aware that the agency has begun research on why the system edits are not functioning properly and gathering information necessary to create a Customer Change Request to alter the edits to reject requests for benefits if these circumstances exist. However, at the time of our audit this correction had not been implemented.

If this program logic remains unaltered within the system, the potential exists that under specific circumstances a duplicate payment could be processed for State Supplementation cases.

Formalized procedures covering specific error correction steps should be followed to ensure that all correction efforts are dealt with in a consistent, systematic, and expedient fashion.

Recommendation

We recommend that CHFS continue its efforts to correct system edits as needed to ensure that State Supplementation benefits can not be issued more than once during a month.

Management Response and Corrective Action Plan

As a result of quarterly testing for duplicate benefits, an error was discovered on July 7, 2006, with duplicate benefits being issued when a 'worker' entered the wrong effective date on the Public Assistance System (PAS). The error was documented on the testers test plan and meeting was scheduled for July 10, 2006. The tester, business analyst and programmers met to complete initial analysis, discuss possible solutions and discuss moving state supplementation cases off of the PAS and to be entered on KAMES, as KAMES has more stringent edits that PA62, preventing worker error. This would also move Office of Information Technology towards the goal of moving all cases off of the PAS system. Time estimates for this effort were determined and a meeting was held with the customers to discuss moving the state supplementation cases off of PAS on August 3, 2006. The customers agreed and submitted a Customer Request for Services (CRS) on August 7, 2006. The CRS has been assigned to the business analyst and a projected release for implementation will be scheduled.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-17: The Cabinet For Health And Family Services Should Reevaluate The Review Process For Closing Package Forms

In our FY 05 audit of Accounts Receivable we noted errors in the closing package. During our FY 06 audit of Accounts Receivable, the FY 05 errors were corrected; however, additional errors were noted. Specifically, CHFS:

- Reversed the federal and state percentage of the Child Support receivable amount between agency 748, fund 1200 and agency 746, fund 1400.
- Reported a receivable twice, once on AFR-30 for agency 726, fund 1200 and again for agency 736, fund 1200. Agency 736 should not have included the receivable.

Errors were not discovered and resolved during review process.

The auditor discovered errors and CHFS submitted corrected Annual Financial Report (AFR) forms to the Finance and Administration Cabinet as follows:

- Child Support receivable amount on the AFR-30 was overstated for agency 746, fund 1400 and understated for agency 748, fund 1200 by \$12,702,675.
- Department for Community Based Services receivable on the AFR-30 was overstated by \$3,281,975.

Good internal controls dictate CHFS should ensure the information reported is accurate and reliable.

Recommendation

CHFS should

- Reevaluate the closing package review process.
- Have knowledgeable personnel review the closing package to ensure mathematical accuracy and supporting documentation agrees to the submitted AFR forms.
- Consider verifying all formulas during compilation or review of closing package forms when using Excel spreadsheets.
- More thoroughly document closing package process to include compilation procedures as well as forms, funds, agencies and contacts.

Management Response and Corrective Action Plan

The Cabinet agrees with the finding of reporting a receivable twice, once for Agency 726 and once for Agency 736. This reporting was a clerical error. The worksheet has been revised to separate the 726 and 736 agency receivables.

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-17: The Cabinet For Health And Family Services Should Reevaluate The Review Process For Closing Package Forms (Continued)****Management Response and Corrective Action Plan**

The Cabinet also agrees that the Child Support receivable amount on the AFR-30 was overstated for Agency 746, fund 1400 and understated for agency 748, fund 1200 by \$12,702,675. This reporting was also a clerical error where when copy forward the formula got reversed. The worksheet has been corrected to reflect the correct formula, which should eliminate any future errors of this nature.

FINDING 06-CHFS-18: The Cabinet For Health And Family Services Should Keep The Case Tracking System Updated

During our audit of CHFS' Accounts Payable Summary of Contingent Liabilities and Judgments closing package forms (AFR 70A), we looked at 18 items and noted the CFC-OGC Case Tracking System to document case status and notes was not being updated in three cases.

- In one case (Case 1), the liability of \$100,000 was paid in July 2006, but neither the AFR 70A nor tracking system indicated a liability or payment.
- Another case (Case 2) was dismissed according to the AFR. The tracking system information page indicated the date the appeal closed, but the notes section did not indicate any activity past the filing of the appeal.
- In a third case (Case 3), CHFS indicated the interrogatories and depositions were being taken as of September 2006, but the tracking system note section had not been updated since November 2004.

The CFC-OGC Case Tracking System for CHFS is not being updated as changes occur in cases.

When the CFC-OGC Case Tracking System is not updated timely, inaccurate and incorrect data is submitted to FAC. The AFR 70As prepared for FAC at the end of FY 06 contained an error.

Good internal controls dictate that procedures ensure the AFR 70A closing package contains verifiable and accurate data.

Recommendation

We recommend CHFS:

- Implement controls to ensure the AFR 70A forms are thoroughly reviewed prior to submission to FAC.
- Require the CFC-OGC Case Tracking System information page and note sections to be updated regularly.

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-18: The Cabinet For Health And Family Services Should Keep The Case Tracking System Updated (Continued)****Management Response and Corrective Action Plan**

The Office of Legal Services will implement a corrective plan to ensure all case data will be entered into the tracking system in a timely and accurate manner. All cases will be updated and contain viable information when submitted to the Finance and Administration Cabinet for the Contingent Liability Status Report.

FINDING 06-CHFS-19: The Cabinet For Health And Family Services Should Strengthen Controls Over Payroll To Ensure All Leave And Overtime Is Being Properly Approved

As a part of the CHFS audit, payroll expenditures were tested. As of June 30, 2006, CHFS had a total of 8,542 employees. For a predetermined pay period, we requested timesheets and supporting documentation for 61 of these employees. CHFS local offices faxed the timesheets and leave/overtime forms to the CHFS Division of Personnel Administration Branch for the auditors to review. As a result of this testing, the following concerns were noted: five (5) timesheets did not have approval for all of the leave taken on accompanying leave forms; and three (3) did not have approval for all of the overtime worked.

Some employees did not include all overtime worked and/or leave taken on leave forms submitted to the employee's supervisor for approval. The supervisor did not require the employee to get written approval.

Failure to include all leave time requested and/or overtime worked on the appropriate form would indicate lack of supervisor approval. In addition, good internal controls dictate that timesheets and supporting forms should be reviewed to prevent errors in recording payroll.

From CHFS Employee Handbook:

An employee is required to request and receive approval in advance for all compensatory time or overtime worked whenever possible. If an employee must work compensatory time or overtime and cannot receive advance approval, it must be reported to the supervisor as soon as possible after accrual. The employee must provide justification for working the compensatory time or overtime. Please keep in mind that an employee who works compensatory time or overtime without prior approval may be subject to disciplinary action.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-19: The Cabinet For Health And Family Services Should Strengthen Controls Over Payroll To Ensure All Leave And Overtime Is Being Properly Approved (Continued)

Recommendation

CHFS should ensure all leave and overtime is being approved by supervisors. Employees should make sure to include all of their leave hours and all of their overtime on the leave/overtime form submitted to their supervisor for approval. CHFS should make sure their policy regarding leave/overtime approval, stated above, is followed by all employees and their supervisors.

Management Response and Corrective Action Plan

A reminder e-mail will be sent to all departments/offices regarding the appropriate procedures/processes to be used for reporting leave and overtime.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 06-CHFS-2: The Cabinet For Health And Family Services Should Implement Procedures To Ensure Services Are Received Prior To Paying The Full Contract Amount

State Agency: Cabinet For Health And Family Services
 Federal Program: CFDA 93.778 - Medical Assistance Program
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through Agency: Not Applicable
 Compliance Area: Allowable Costs/Cost Principles
 Amount of Questioned Costs: \$1,000,000

This finding is a reportable condition for internal control over financial reporting and internal control over compliance. The entire finding can be found in the financial statement findings at 06-CHFS-2.

FINDING 06-CHFS-20: The Cabinet For Health And Family Services Should Document The Reconciliation Of Quarterly Financial Reports For The Adoption Assistance Program

State Agency: Cabinet For Health And Family Services
 Federal Program: CFDA 93.659 – Adoption Assistance
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through Agency: Not Applicable
 Compliance Area: Reporting
 Amount of Questioned Costs: None

During the CHFS audit, we were unable to reconcile Adoption Assistance expenditures reported in the ACF-IV-E, *Foster Care and Adoption Assistance Financial Report*, for FY 06 to the MARS statewide accounting and reporting system. CHFS reported quarterly expenditures of \$7,619,334 that did not agree to total expenditures shown in MARS of \$5,493,786.16 for a difference of \$2,125,547.84. Information and explanations supporting the 4th quarter ACF-IV-E, *Foster Care and Adoption Assistance Financial Report* was not provided to the Auditor.

CHFS is not reconciling the ACF-IV-E, *Foster Care and Adoption Assistance Financial Report* with MARS. If the reconciliation was performed, CHFS did not provide the reconciliation to the Auditor.

The ACF-IV-E, *Foster Care and Adoption Assistance Financial Report* submitted to the federal government may be inaccurate. The inability to tie payments to the MARS accounting system could lead to erroneous payments for the Adoption Assistance program.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-20: The Cabinet For Health And Family Services Should Document The Reconciliation Of Quarterly Financial Reports For Adoption Assistance (Continued)**

We could not determine if the report included all activity of the reporting period; was supported by applicable accounting or performance records; and, was fairly presented in accordance with program requirements.

OMB Circular A-133 – Compliance Supplement, Part 4 says, “The general ledger or other reliable records are the basis for the reports.” Good internal control dictates that the underlying accounting records are the basis for expenditures reported to the Federal government. Reliable and accurate accounting data also promotes operational efficiency. The foundation for a good internal control system begins with a minimum of reconciling amounts reported in financial reports to the accounting system.

Recommendation

We recommend CHFS reconcile Adoption Assistance Program expenditures reported in the ACF-IV-E, *Foster Care and Adoption Assistance Financial Report* to the MARS accounting system and, going forward, with the new E-Mars accounting system.

Management Response and Corrective Action Plan

The \$7,619,334 is the total (state & federal) amount reported on the federal report for Maintenance only (does not include the Administration (Admin) or Training amounts for Quarter Ending (QE) 12/31/05. The \$5,493,786.16 is the amount of federal expenditures (Maintenance, Admin, & Training) that posted in MARS during QE 12/31/05. The biggest reason for the \$2,125,547.84 is that one number is total dollars for Maintenance only and the other number is federal dollars only for Maintenance, Admin, and Training. The other reason is that we can only claim Maintenance on IV-E children only and the Admin and Training claims are based on a Random Moment Time Study. So there will always be differences between what can be reported for a quarter and what actually posted during that quarter. The only time that the reports will match MARS/eMARS is after the last quarterly report is done for a Federal Fiscal Year and the final reconciling JV has been done.

Auditor’s Reply

We met with CHFS personnel on January 18, 2007. We acknowledge that there will be differences between the amount reported for a quarter on the report and the amount posted in MARS for the quarter. However, as we discussed during the meeting, we should still be able to reconcile the expenditures reported on the ACF IV-E *Foster Care and Adoption*

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 06-CHFS-20: The Cabinet For Health And Family Services Should Document The Reconciliation Of Quarterly Financial Reports For Adoption Assistance (Continued)

Auditor's Reply

Assistance Financial Report for FY 06 to MARS with the information provided to us by CHFS. CHFS should document the procedures and steps used to prepare the ACF IV-E *Foster Care and Adoption Assistance Financial Report*. We will continue to work with personnel on this issue during our upcoming audit.

FINDING 06-CHFS-21: The Cabinet For Health And Family Services Should Ensure Policy And Procedures Are Adhered To And Maintain Adequate Records

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 93.558 – Temporary Assistance For Needy Families

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility, Activities Allowed or Unallowed, Special Tests & Provisions

Amount of Questioned Costs: \$18,149

We reviewed 165 TANF cases (79 of the cases were tested for 60 month Lifetime Limit compliance) for eligibility from Division of Community Based Services (DCBS) offices in Breathitt, Christian, Daviess, Fayette, McCracken, and Warren counties. Local offices failed to produce records to support expenditures and follow procedures outlined in Volume III – *Kentucky Transitional Assistance Program (K-TAP)* and Volume IIIA – *Kentucky Works Program (KWP)* of CHFS' operation manual.

We noted problems in the following areas, which resulted in \$18,149 of questioned costs:

Failure to Follow Established Policies and Procedures

- One case file contained a PA-32 form processed with unused lines not crossed out in the "Description of item or service to be provided" section of the form.

Documentation or Forms Missing from Case File

- Of two kinship care files, one lacked the KC-78 and one lacked documentation of approval form P&P.

Missing Case Files

- Two case files selected for eligibility/allowable cost testing were unable to be located in their entirety.
- One case selected for special tests and provisions non-cooperation with Child Support Enforcement was unable to be located.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 06-CHFS-21: The Cabinet For Health And Family Services Should Ensure Policy And Procedures Are Adhered To And Maintain Adequate Records (Continued)

- Two cases selected for 60-month Lifetime Limit/Extension testing were unable to be located.

Some of these (or similar) items were commented on in the FY 01, FY 02, FY 03, FY 04, and FY 05 audits. The agency has taken steps to make caseworkers more aware of prior year findings and provide tips and reminders for processing of eligibility case files.

CHFS K-TAP and KWP policies and procedures were not adhered to by local offices and case files were not tracked and filed appropriately to prevent loss.

When K-TAP and KWP policies and procedures are not adhered to, CHFS cannot be assured that expenditures are being made appropriately and to eligible individuals. When TANF case files and records are not maintained or cannot be located, we cannot review client information and documentation for TANF eligibility. In addition, if local DCBS offices do not maintain adequate case records, the CHFS and the U.S. Department of Health and Human Services cannot be assured that benefits are issued to eligible recipients. This could result in the DHHS assessing a penalty against CHFS. According to 45 CFR 262.1(a)(1), the penalty could be for “the amount by which a State misused its TANF funds.”

Good internal controls dictate that when caseworkers make expenditures of Federal awards, the client’s eligibility determination should be reviewed adequately and completely to ensure only eligible participants receive Federal funding. Good internal controls also dictate that program personnel be adequately trained and supervised to ensure that Federal monies are expended in accordance with program policies and procedures.

Federal Regulations at 45 CFR 205.60(a) state:

The State agency will maintain or supervise the maintenance of records necessary for the proper and efficient operation of the plan, including records regarding applications, determination of eligibility, the provision of financial assistance...The records will include information concerning the date of application, and the date and basis of its disposition; facts essential to the determination of initial and continuing eligibility (including the individual’s social security number, need for, and provision of financial assistance); and the basis for discontinuing assistance.

Federal Regulations at 45 CFR 92.42(b)(1) also state, “...records must be retained for three years from the starting date specified in Paragraph (c)...”

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-21: The Cabinet For Health And Family Services Should Ensure Policy And Procedures Are Adhered To And Maintain Adequate Records (Continued)**

Recommendation

In general, we recommend K-TAP policies and procedures be adhered to before Federal awards are expended. CHFS should increase quality control reviews performed by the Quality Control branch in the Office of the Ombudsman. These reviews should be expanded to encompass compliance for all case types in the areas of K-TAP applications, recertifications, approvals, and all applicable forms pertaining to receiving payments to ensure they are made in accordance with policies and procedures. In addition, OIG should expand procedures to review case files for compliance with written policies and procedures.

The problems in the K-TAP, KWP, and Work Incentive (WIN) programs were first noted in FY 01 and continued through FY 06. Based upon evidence obtained from the cases sampled in various counties, we do not believe they are isolated to a few DCBS offices but are indicative of problems occurring statewide.

Case files should be maintained to adequately support applications, eligibility determinations, case decisions, and expenditures. CHFS should work with local offices to assist them in developing and maintaining adequate filing systems so that case files can be tracked and located. When transferring cases, the agency should develop procedures to ensure all relevant case files are transferred to the new DCBS office.

Management Response and Corrective Action Plan

The Family Self-Sufficiency (FSSB) agrees with the recommendation to expand the quality control Branch in the Office of the Ombudsman and is currently in discussions regarding expansion of the QC reviews performed by the Quality Control Branch. OIG continues to expand the Determining Eligibility through Extensive Research (DETER) program. The DETER program assists DFS staff by conducting field investigations to ensure accuracy of information or a situation that appears suspect with respect to eligibility requirements. The Family Self-Sufficiency Branch (FSSB) has taken steps based on findings from previous years and believes that improvement has occurred based on these steps. FSSB will provide quarterly reminders to the field in the form of tips on the KAMES system regarding completion and processing of forms PA-32. FSSB will provide quarterly reminders to the field regarding the importance of completing and maintaining appropriate forms and documentation in all case records and specifically for Kinship Care case records. These reminders will be in the form of tips on the

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 06-CHFS-21: The Cabinet For Health And Family Services Should Ensure Policy And Procedures Are Adhered To And Maintain Adequate Records (Continued)

Management Response and Corrective Action Plan

KAMES system. FSSB will provide quarterly reminders to the field in the form of tips on the KAMES system regarding the importance of maintenance and filing of hardcopy case records. Additionally, FSSB will issue a semi annual reminder in the form of a Family Support Memo (FSM) regarding case record maintenance and filing.

FINDING 06-CHFS-22: The Cabinet For Health And Family Services Should Maintain Proper Supporting Documentation For Case Files

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 93.563 – Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: None

During audit testing for the Child Support Enforcement Grant, we selected 104 child support cases to be reviewed at the child support offices located in the following counties: Clark, Fayette, Jefferson, Meade, Mercer, and Warren. Out of 104 cases tested, 73 (70.19%) were in compliance for FY 06. We noted 18 cases with exceptions, and 17 had multiple ones. The exceptions are as follows:

- In nine (9) instances (8.65%), the case file was missing at the time of testing. Jefferson County had seven (7) missing files; Meade County had one (1) missing file; and Mercer County had one (1) missing file.
- In three (3) cases (2.88%), support orders were not established within the required time frames.
- In four (4) cases (3.85%), the county attorney or his staff was not enforcing support orders.
- In eighteen (18) cases (17.31%), medical support was not being pursued and/or enforced. Case file/KASES documentation did not show an attempt to obtain medical insurance nor that National Medical Support Notices (CS-72's) were sent.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-22: The Cabinet For Health And Family Services Should
Maintain Proper Supporting Documentation For Case Files (Continued)**

CHFS is required to conduct self-reviews for the child support program. During audit testing, we selected 33 cases subject to a federal self-assessment review. Of the 33 cases selected, the auditor was not provided supporting documentation pertaining to the federal self-assessment reviews for seven (7) cases. Since the auditor was not provided documentation for 7 of the 33 cases selected, it cannot be determined if the state is in compliance with federal requirements regarding the provision of child support services.

Failure to establish and enforce child and medical support in a timely manner hinders the State of Kentucky from providing the proper service to families who need the financial support.

This may cause them to remain dependent on the State of Kentucky for financial support, which may cost Kentucky's TANF and Medicaid programs millions of unnecessary dollars.

The purpose of the annual Federal self-assessment is to allow a state the opportunity to assess whether or not it is in compliance with federal requirements regarding the provision of child support services. Failing to identify deficiencies during the self-assessment may not ensure the contracting official is following the child support regulations.

Per 45 CFR Section 303, IV-D agencies are required to secure support for children from legally liable persons within ninety (90) days of locating the noncustodial parent. This involves the establishment of a legal order requiring the noncustodial parent to provide financial and medical insurance support to a dependent child. Unsuccessful attempts to serve process must be documented. The statute also requires the case record to be supplemented with all information and documents pertaining to the case, as well as all relevant facts, dates, actions taken, contacts made, and results in a case.

45 CFR 308.1 requires the field staff of the Division of Child Support Enforcement to conduct self-assessment reviews.

Recommendation

We recommend CHFS provide additional training to its contracting officials to ensure all regulations and procedures are followed and required timeframes are met. The contracting officials should take appropriate action to enforce support and medical obligation in a timely manner. In instances where health insurance is ordered, the contracting official should verify insurance information of the non-custodial parent and promptly forward the insurance information to the Medicaid agency in cases where the child is a recipient of Medicaid.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-22: The Cabinet For Health And Family Services Should
Maintain Proper Supporting Documentation For Case Files (Continued)**

Recommendation

Caseworkers should accurately and thoroughly document all actions in KASES. If actions are correctly documented in KASES, this will enable caseworkers to provide efficient service to recipients of child support.

CHFS should ensure that the required Federal Self-Assessments are being completed in a timely manner and results are being forwarded to the appropriate personnel.

Management Response and Corrective Action Plan

Missing case records- With automated interfaces with KAMES and TWIST, it is very possible a hardcopy file will not exist. Per 45 CFR 302.15, the only defined requirement that indicates it must be in the form of a hard copy file is the NPA application. All other records may be in an electronic format or the records are not directly related to a specific case. If a referral is received through an electronic interface with KAMES or TWIST and no action has been taken, a hard copy file is not likely to exist. Since we did not receive the error records, we cannot determine if we agree with the finding or the recommendation.

Support orders established- According to the findings, 2.88% of the cases were deficient, which would indicate a compliance rate of 97.12%. The only defined bench mark for order establishment is in 45 CFR 308.2 (b), and the bench mark is 75%.

Enforcing support orders- According to the findings, 3.85% of the cases were deficient, which would indicate a compliance rate of 96.15%. The only defined bench mark for order establishment is in 45 CFR 308.2 (c), and the bench mark is 75%.

Medical support- Again, with a 17.31% deficiency rate, the indication is a compliance rate of 82.69%, and the only defined bench mark for medical support is in 45 CFR 308.2 (e). The bench mark is 75%.

Self Assessment- We provided either the self assessment review tool or the self assessment results worksheets for all cases that our staff reviewed. Both of these documents show the results of the self assessment review: i.e. which categories applied to the case, whether the case was found in compliance and if out of

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-22: The Cabinet For Health And Family Services Should Maintain Proper Supporting Documentation For Case Files (Continued)****Management Response and Corrective Action Plan**

compliance, why the case was out of compliance. If a sample case is thrown out, the worker selects another case from an additional pool of cases to review. The caseworkers have not been instructed to complete a self assessment review sheets on a case that is not reviewed. Examples of why a case would be the sample case is thrown out is that the sample case is a duplicate case, the case should have been closed, no action was required during the review period, case as an inappropriate referral from KAMES/TWIST.

FINDING 06-CHFS-23: The Cabinet For Health And Family Services Should Ensure The Jefferson County Child Support Enforcement Office Has Appropriate Approvals For Computer Equipment Purchases

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 93.563 – Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Cost

Amount of Questioned Costs: \$49,604

CHFS contracts with county attorneys, pursuant to KRS 205.712 (6), to administer the Child Support Enforcement (CSE) program. During our audit, we noted two questionable capital project expenditures to purchase equipment. These two expenditures (\$29,447 and \$20,157) totaling \$49,604 did not have prior authorization or sufficient documentation on file. The expenditures were on the January FY 06 invoice for the Jefferson County attorney's contract.

The approvals were not documented in the CHFS- CSE files for the Jefferson County Attorney or in the Jefferson County Attorney invoice files.

The lack of prior authorization and supporting documentation for the charges resulted in questionable expenditures.

The lack of proper supporting documentation and prior authorization for capital project expenditures could result in unallowable purchases charged to the CSE program, which makes the expenditures in violation of contract provisions. Without supporting documentation we have no way to determine if the expenditures were allowable expenditures for the program.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 06-CHFS-24: The Cabinet For Health And Family Services Should Ensure The Jefferson County Child Support Enforcement Office Has Appropriate Approvals For Computer Equipment Purchases (Continued)

All purchases over \$5,000 are required to have prior authorization per OMB Circular A-87, attachment B (15) (b) (2): “Capital Expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5,000 or more have the prior approval of the awarding agency.” Both the Division of Contract Development Director and Executive Director of the Office of Contract Oversight should approve these expenditures.

Prior authorization and approval procedures must be effective to ensure state and federal funds are not used in violation of the applicable rules and regulations set forth in the master agreement. The master agreement states, “The Second Party shall obtain prior written approval from the Cabinet for necessary program equipment, purchased or leased in accordance with Child Support policies and procedures.”

OMB Circular A-133 compliance supplement lists Activities Allowed and Unallowed. Without supporting documentation we cannot determine if the expense is allowable.

Recommendation

We recommend CHFS keep adequate documentation for capital project expenditures on file, and we recommend CHFS ensure all county attorneys obtain prior approval for amounts over the capital projects threshold.

Management Response and Corrective Action Plan

CHFS’ Office of Contract Oversight (OCO), Division of Contract Development Services (DCDS) has reviewed the two expenditures in question (\$29,448 and \$20,157). These expenditures were not capital project expenditures as noted within the record of non-compliance.

The first expenditure of \$29,447 covers four individual invoices that were billed to the Jefferson County Child Support office by Certified Systems. (1) Invoice #2005-1215 for \$15,404 was a software license renewal covering the 2/1/06 through 1-31-07 time period. (2) Invoice #2005-1216 for \$5,555 was an annual license and software maintenance renewal through the 12/31/2006 time period. (3) Invoice#2006-0110 for \$1,000 was a monthly system support agreement fee for the February 1 -28, 2006 time frame. (4) Invoice #2006-0103 for \$7,488 was a billing for hourly system support services including installation and upgrades to the KASES Linking System.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-23: The Cabinet For Health And Family Services Should Ensure
The Jefferson County Child Support Enforcement Office Has Appropriate Approvals
For Computer Equipment Purchases (Continued)**

Management Response and Corrective Action Plan

The second expenditure of \$20,157 covers two individual invoices that were billed to the Jefferson County Child Support office by Certified Systems. (1) Invoice #2005-1210 for \$1,000.00 was a monthly system support agreement fee for January 1-31, 2006. (2) Invoice #2006-0103 for \$19,157.00 was a billing for hourly system support work that had been performed and the balance due on a Web Case Audit Program.

Both of these expenditures were inaccurately assigned an "E" code on the expenditure report that was submitted by the Jefferson County Attorney Office for January 2006 and also reported incorrectly on the "Equipment" line on the Invoice for Title IV-D Contract form. The actual invoices in question were for various technology licensing agreements and technology services rather than capital project expenditures. The current child support procedure for equipment purchases for each County Attorney Child Support Office requires that any equipment purchase with a single-item cost of \$499 or less does not require prior Cabinet approval while any equipment purchase exceeding a single-item cost of \$500 or more requires prior approval by the Cabinet. Requirements regarding equipment purchases are also outlined in Section 9 of all the County Attorney Office contracts. Pursuant to internal OCO equipment approval procedures when an equipment approval request is received by a Contract Specialist it is reviewed and approved by the DCDS Director. If the request exceeds \$5,000 then an additional approval is also required by the OCO Executive Director. In this instance the proper approval procedures were not followed by the Contract Specialist who administered the Jefferson County Attorney contract since the prior approval for all technology related purchases for services/equipment was not obtained. The current procedure requires that the contract specialist obtain prior approval from the CHFS Office of Information Technology for all technology related purchases including services and licensing agreements. Additionally, the audit finding noted that the required supporting invoice information was not maintained by the Jefferson County Attorney's Office. Pursuant to the County Attorney Child Support contract all supporting documentation is required to be maintained in each individual County Attorney Office.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-23: The Cabinet For Health And Family Services Should Ensure
The Jefferson County Child Support Enforcement Office Has Appropriate Approvals
For Computer Equipment Purchases (Continued)**

Management Response and Corrective Action Plan

Corrective Action Plan: (1) A Memorandum from the Office of Contract Oversight will be issued to the Director of Child Support Enforcement for dissemination statewide to all of the Child Support Contracting Officials. This memo will contain a reminder of the required equipment request procedures and the proper billing steps to ensure future compliance.

(2) A Memorandum from the Office of Contract Oversight will be issued to the Jefferson County Attorney Office reminding them of their obligation to maintain all supporting invoice documentation including any prior approvals that were received in conjunction with equipment and/or technology related purchases.

(3) The equipment approval procedure will be revised within the Office of Contract Oversight to require the contract specialist to match up any prior authorization documentation to equipment/technology invoices prior to submitting the actual monthly reimbursement request for payment. The contract specialist will attach the equipment purchase approval documentation form to the invoice and assure it is included with the specific month the expenditure is reimbursed. This is to ensure that the contract specialist who administers these contracts will verify that prior authorizations for all applicable equipment/ technology purchases have been obtained PRIOR to the expenditure reimbursement being processed for payment.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-24: The Cabinet For Health And Family Services Should Ensure Financial Records For Administration Of The Child Support Enforcement Program Remain On-site At The Meade County Attorney Office At All Times**

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 93.563 – Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Cost

Amount of Questioned Costs: \$178,511

CHFS contracts with county attorneys, pursuant to KRS 205.712 (6), to administer the Child Support Enforcement (CSE) program. We attempted to audit the Child Support Enforcement expenditures that were submitted for reimbursement by the Meade County Attorney's office. However, all CSE financial records related to program administration, such as timesheets, bank account records, invoices, purchase orders were not available at the Meade County Attorney's Office at the time of the audit. Therefore, we could not verify the propriety of the \$178,511 in Federal fund expenditures that were paid to the Meade County Attorney for administering the CSE program.

We could not determine if expenditures that were reimbursed under the contract were in compliance with federal and state laws and regulations. We could not determine if Meade County CSE costs were allowable expenditures under the contract, or if they were recorded properly.

Financial records must be available, on-site at the subrecipient location, in order to determine if contracts are being administered in accordance with state and federal laws and regulations. No assurance can be provided that the Meade County Attorney's office used Federal funds for allowable contract activities that were necessary and reasonable for program administration; nor can any assurance be provided that invoiced amounts were calculated, recorded, and reported correctly.

The Master Agreement CSE has with the Meade County Attorney states at section 6.1, "The Second Party shall establish and continue to maintain an accounting system in a manner which provides a clear distinct audit trail, as defined by Section 7.2, for the purpose of accounting and auditing the receipt and expenditure of all public funds received through this contract."

It further states at section 7.2, "The Second Party shall determine allowable costs on the basis of generally accepted methods of cost accounting allowable cost as determined in OMB Circular A-122 or A-87, as applicable, and maintain financial records, documents, reports, and other evidence which properly reflect all direct or indirect costs of any nature expended in the performance of this agreement, and maintain statistical data and reports as required by the IV-D Agency or the federal government;"

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 06-CHFS-25: The Cabinet For Health And Family Services Should Ensure Financial Records For Administration Of The Child Support Enforcement Program Remain On-site At The Meade County Attorney Office At All Times (Continued)**

Recommendation

We recommend all financial documentation for the administration of the CSE program should remain on-site at the Meade County Attorney's office at all times.

Management Response and Corrective Action Plan

DCS personnel met with APA auditors on January 16, 2007, for the entrance meeting to discuss the scope of the FY06 compliance work. At that time, the Division was made aware of possible issues relating to the Meade County Child Support program. The incoming County Attorney, had not notified the Division of any problems. After the meeting, a CHFS employee contacted in-coming County Attorney to determine the specific issues. The only issue reported was that the former County Attorney, had failed to turn over any financial or personnel records. On February 5, 2007, the Deputy Commissioner, sent a letter to former County Attorney requesting that he turn over these records within 5 days. On February 28, 2007, the Division received a letter from former County Attorney advising that he turned over the personnel files on February 19, 2007, but could not turn over the financial records until had he received a final audit pursuant to KRS 64.830. This statute does not specifically apply to the child support program and it is not referenced in the child support contract but this is the statute that the outgoing county attorney is relying on to support his failure to turn over the financial records. The child support contract does not contain specific procedures that an incoming or outgoing county attorney must follow. In a meeting with KCAA representatives in January we did discuss adding this language to the contract but decided that because it would be another 4 years before we had to deal with mass changes again, we could work on the changes, with the expectation that the changes would be placed in the SFY 09 contract.

A letter will be sent to the former County Attorney from the Deputy Commissioner pending review. Once the letter has been sent, the Division will follow up with that office to insure that these records are transferred.

The Division's Policy Section will also work with the Office of Contract Oversight to develop written procedures for incoming and outgoing Contracting Officials to follow with the expectation that these will be issued as a Policy document and placed in the Contracting Official's contract for SFY 09.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-9: The Cabinet For Health And Family Services Should Develop Automated Analysis Procedures To Identify High Risk Transactions Within Benefit Programs**

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 10.561 - State Administrative Matching Grants for Food Stamp Program

CFDA 93.558 - Temporary Assistance for Needy Families

CFDA 93.778 - Medical Assistance Program

Federal Agency: U.S. Department of Agriculture

U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed, Allowable Costs/Cost Principles, and Eligibility

Amount of Questioned Costs: None

This finding is an other matter for internal control over financial reporting and internal control over compliance. The entire finding can be found in the financial statement findings at 06-CHFS-9.

FINDING 06-CHFS-10: The Cabinet For Health And Family Services Should Review System Edits Related To Program Limitations

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 93.558 - Temporary Assistance for Needy Families

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed, Allowable Costs/Cost Principles, and Eligibility

Amount of Questioned Costs: None

This finding is an other matter for internal control over financial reporting and internal control over compliance. The entire finding can be found in the financial statement findings at 06-CHFS-10.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-12: The Cabinet For Health And Family Services Should Strengthen Logical Security Procedures Surrounding Mainframe Applications

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 10.561 - State Administrative Matching Grants for Food Stamp Program

CFDA 93.558 - Temporary Assistance for Needy Families

CFDA 93.778 - Medical Assistance Program

Federal Agency: U.S. Department of Agriculture

U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed, Allowable Costs/Cost Principles, and Eligibility

Amount of Questioned Costs: None

This finding is an other matter for internal control over financial reporting and internal control over compliance. The entire finding can be found in the financial statement findings at 06-CHFS-12.

FINDING 06-CHFS-13: The Cabinet For Health And Family Services Should Strengthen And Consistently Apply Employee Termination Procedures

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 10.561 - State Administrative Matching Grants for Food Stamp Program

CFDA 93.558 - Temporary Assistance for Needy Families

CFDA 93.563 – Child Support Enforcement

CFDA 93.575 – Child Care and Development Block Grant

CFDA 93.778 - Medical Assistance Program

Federal Agency: U.S. Department of Agriculture

U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed, Allowable Costs/Cost Principles, and Eligibility

Amount of Questioned Costs: None

This finding is an other matter for internal control over financial reporting and internal control over compliance. The entire finding can be found in the financial statement findings at 06-CHFS-13.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-14: The Department For Medicaid Services Should Strengthen Monitoring Over The Change Control Process**

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 93.778 - Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed, Allowable Costs/Cost Principles

Amount of Questioned Costs: None

This finding is an other matter for internal control over financial reporting and internal control over compliance. The entire finding can be found in the financial statement findings at 06-CHFS-14.

FINDING 06-CHFS-15: The Cabinet For Health And Family Services Should Ensure Completeness Of Contractual Requirements Related To The Public Consulting Group Contract

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 93.778 - Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed, Allowable Costs/Cost Principles

Amount of Questioned Costs: None

This finding is an other matter for internal control over financial reporting and internal control over compliance. The entire finding can be found in the financial statement findings at 06-CHFS-15.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 06-CHFS-16: The Cabinet For Health And Family Services Should Ensure System Error Within State Supplementation Is Corrected

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 10.561 - State Administrative Matching Grants for Food Stamp Program

CFDA 93.558 - Temporary Assistance for Needy Families

CFDA 93.778 - Medical Assistance Program

Federal Agency: U.S. Department of Agriculture

U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed, Allowable Costs/Cost Principles, and Eligibility

Amount of Questioned Costs: None

This finding is an other matter for internal control over financial reporting and internal control over compliance. The entire finding can be found in the financial statement findings at 06-CHFS-16.

FINDING 06-CHFS-25: The Cabinet For Health And Family Services Should Ensure Compliance With Subrecipient Monitoring Requirements

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 93.283 Centers For Disease Control and Prevention- Investigations and Technical Assistance

93.569 Community Services Block Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

During the CHFS FY 06 audit, we tested monitoring for subrecipients to ensure that subrecipients that had expended \$500,000 or more in Federal awards during FY 06 had met the audit requirements of OMB Circular A-133. During the review for Centers for Disease Control and Prevention-Investigations and Technical Assistance and Community Services Block Grant, we noted areas of noncompliance as follows:

- Two instances desk reviews were performed 9-10 months past the received date. In both instances, the reviews did not have a supervisory review signature indicating the review process was complete.
- One instance where a management decision letter had not been sent to the CPA for findings noted in the desk review.

Similar problems occurred in the FY 05 audit. However, CHFS changed the monitoring process in FY 06 and we found fewer problems.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-25: The Cabinet For Health And Family Services Should Ensure Compliance With Subrecipient Monitoring Requirements (Continued)**

Without proper oversight, such as signature noting review and communicating management decisions, CHFS cannot be assured subrecipients are expending Federal awards for their intended purpose and are in compliance with OMB Circular A-133.

OMB Circular A-133 Subpart D (d) requires the following:

- (3) Monitor the activities of Subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreement and that performance goals are achieved.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Recommendation

CHFS should:

- Ensure all subrecipient audit reports are reviewed and contain a supervisory review signature within five months of receipt from the subrecipient via desk review and address any findings reported.
- Continue to improve procedures ensuring that management decision letters are timely issued so that findings noted in desk reviews are properly addressed by the subrecipient.

Management Response and Corrective Action Plan

This audit was assigned to OIG as that agency was under contract with DCBS to perform Desk Reviews on all sub-recipient OMB A-133 Audits. However, DCBS has developed capacity, knowledge, and expertise to do the desk reviews internally. The processes executed within the department have greatly improved the reviews and the outcomes. It is anticipated that this issue would not recur in future desk reviews.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-26: The Cabinet For Health And Family Services Should Maintain Proper Supporting Documentation For The TANF Program Expenditures**

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 93.558 - Temporary Assistance for Needy Families

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed

Amount of Questioned Costs: \$4181

During our FY 06 audit, we attempted to test 48 transaction documents to determine if TANF expenditures made were for allowable activities. The auditor requested support for the 48 transactions however, documentation for 11 of the selected items, over 22% of items requested, were unable to be located by central office; therefore, we are unable to verify that the expenditures were allowable.

CHFS was unable to locate requested documentation.

When supporting documentation is not maintained adequately CHFS cannot be assured that expenditures made were for allowable activities.

Recommendation

CHFS should develop and maintain an adequate filing system so that supporting documentation can be tracked and located.

Management Response and Corrective Action Plan

The Accounts Payable Branch has continued their search for the selected 11 documents that could not be located. In our search one of the documents was for a Quarterly Rent payment (I-05388925 in the amount of \$326.53). The rent payments are system generated from the original contract document and we do not maintain hard copy invoices. We have also located I-06194631 in the amount of \$256,875. The Known Questioned Cost was originally reported at \$261,383 and with the above findings the Known Questioned Cost is now \$4,508. The documents that make up the revised Known Questioned Cost are: I-05310348 \$8, I-05350292 \$80, I-05350292 \$80, I-05429688 \$2, I-06017232 \$40, I-06108696 \$4, I-06127062 \$3, I-06139253 \$1, P1001431430 \$262, P1001431614 \$225. and P1 001519892 \$3,475. The Cabinet currently has an adequate filing system in place. This is the same filing system the Cabinet has been using for years.

Auditor's Reply

The auditor reviewed the additional information located by CHFS and will reduce the questioned cost amount to \$4,181.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-27: The Cabinet For Health And Family Services Should Provide Adequate Review Of Quarterly Reports**

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 96.001 Social Security-Disability Insurance

Federal Agency: Social Security Administration

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

CHFS is required to submit the “State Agency Report of Obligations for SSA Disability Programs” report quarterly for each open grant year for the Social Security Disability Insurance program. There were five open grant years and with four quarterly reports there was a total of 20 reports submitted in State Fiscal Year 06. During our review, we noted:

- The preparer of the reports signed several reports for the Director, including Federal Fiscal Year (FFY) 02 quarter ended December 31, 2005, FFY 04 quarter ended June 30, 2006, FFY 04 quarter ended March 31, 2006 and FFY 06 quarter ended March 31, 2006. The preparer was authorized to sign the reports; however, duties should be segregated.
- The Medical Costs for the FFY 06 report for the quarter ended 3/31/06 was understated by \$780,343.
- An error of \$237 on the FFY 04 report was carried forward on six (6) quarterly reports.

If review procedures were operating effectively, the two errors above may have been detected prior to report submission.

The director may not have been available to review and approve the reports prior to the report due date. Staff shortages may have limited the availability of a review, during which errors may have been noticed and corrected prior to report submission.

Failure to establish effective internal controls relating to the preparation and review of financial reports led to errors. The person preparing the reports also signed and submitted the reports to the Federal government. Report errors occurred. The reports noted above may need to be resubmitted to the Federal government with corrected amounts.

Good internal controls dictate that Federal reports be reviewed and approved by a second or third person prior to submission to the Federal government.

Recommendation

We recommend the director or another designee review and approve the reports. Alternatively, another person could be assigned to prepare the reports and the current preparer could review and approve for the Director.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 06-CHFS-27: The Cabinet For Health And Family Services Should Provide Adequate Review Of Quarterly Reports (Continued)**

Management Response and Corrective Action Plan

Our standard procedure in place is in accordance with your recommendation; we will reiterate our policy with the appropriate staff. The Division of General Accounting is exploring the possibilities of hiring additional staff in the grants branch. The understatement of Medical Cost was an oversight and should have been reported on the March 31, 2006 quarterly report. The Medical Cost was included in the June 30, 2006 quarterly report, and the \$237 error was corrected on the June 30, 2006 quarterly report.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 05	05-CHFS-2	The Cabinet For Health And Family Services' Password Policy Should Be Consistently Applied To All Local Area Network Machines	NA	0	See 06-CHFS-11 Due to improvements this finding is downgraded to other matter for FY 06. This finding is no longer required to be reported under <i>Government Auditing Standards</i> . Resolved in FY 06
FY 05	05-CHFS-3	The Cabinet For Health And Family Services Should Develop And Implement Adequate System Development Life Cycles Policies And Procedures Governing Controls For Program Development And Modifications	NA	0	
FY 05	05-CHFS-4	The Cabinet For Health And Family Services Should Develop Automated Analysis Procedures To Identify High Risk Transactions Within Benefit Programs	10.561 93.558 93.778	0	See 06-CHFS-9 Due to improvements this finding is downgraded to other matter for FY 06. This finding is no longer required to be reported under <i>Government Auditing Standards</i>
FY 05	05-CHFS-5	The Cabinet For Health And Family Services Should Review System Edits Related To Program Limitations	93.558	0	See 06-CHFS-10 Due to improvements this finding is downgraded to other matter for FY 06. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
FY 05	05-CHFS-6	The Cabinet For Health And Family Services Should Implement Controls To Ensure Proper Preparation And Review Of Closing Package Forms	NA	0	See 06-CHFS-17 Due to improvements this finding is downgraded to other matter for FY 06. This finding is no longer required to be reported under <i>Government Auditing Standards</i>

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions (Continued)</u>					
FY 05	05-CHFS-14	The Cabinet For Health And Family Services Did Not Adequately Monitor Subrecipients Through the Desk Review Process	93.563 93.575	0	See 06-CHFS-25 Due to improvements this finding is downgraded to other matter for FY 06. This finding is no longer required to be reported under <i>Government Auditing Standards</i>
FY 05	05-CHFS-15	The Cabinet For Health And Family Services Did Not Implement The Corrective Action Plan For Subrecipient Monitoring	93.563 93.575	0	See 06-CHFS-25 Due to improvements this finding is downgraded to other matter for FY 06. This finding is no longer required to be reported under <i>Government Auditing Standards</i>
FY 04	04-CFC-1	The Cabinet For Families And Children Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	See 06-CHFS-11. Due to improvements this finding is downgraded to other matter for FY 06. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
FY 04	04-CHS-2	The Department For Public Health Should Improve Efforts In Monitoring Subrecipient Activity	93.283	0	See 06-CHFS-9 Due to improvements this finding is downgraded to other matter for FY 06. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 05	05-CHFS-1	The Cabinet For Health And Family Services Should Strengthen The Security Of System Accounts	NA	0	See 06-CHFS-1
FY 05	05-CHFS-7	The Cabinet For Health And Family Services Should Obtain A SAS 70 Audit Report For Tier Technologies, Inc	NA	0	See 06-CHFS-6

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected (Continued):</i>					
FY 05	05-CHFS-12	The Cabinet For Health And Family Services Should Follow Documented Policies And Procedures And Maintain Adequate Records To Ensure Payments Are Made For Services To Eligible Recipients	93.558	\$29,820	See 06-CHFS-21
FY 05	05-CHFS-13	The Cabinet For Health And Family Services Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support	93.563	0	See 06-CHFS-22
FY 04	04-CFC-2	The Cabinet For Families And Children Should Ensure All Inactive Accounts Are Eliminated And That All Account Names Are Ambiguous	NA	0	See 06-CHFS-1.
FY 04	04-CFC-6	The Cabinet For Families And Children Should Maintain Case File Records That Include Client Applications, Recertifications, And Records Of Eligibility Determinations	93.558	\$18,224	See 06-CHFS-21.
FY 04	04-CFC-7	The Cabinet For Families And Children Should Maintain Records To Ensure Payments Are Made For Approved And Allowable Goods And Services To Eligible Recipients	93.558	\$16,774	See 06-CHFS-21.
FY 04	04-CFC-8	The Cabinet For Families And Children Should Only Issue Work Incentive Payments To Eligible Individuals And Should Request And Maintain Adequate Documentation Of The Eligibility Determinations	93.558	\$1,040	See 06-CHFS-21.
FY 04	04-CFC-10	The Cabinet For Families And Children Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support	93.563	0	See 06-CHFS-22.

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions (Continued)</u>					
<i>(4) Audit finding is no longer valid and does not warrant further action:</i>					
FY 03	03-CFC-1	The Cabinet For Families And Children Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.
FY 03	03-CFC-8	The Cabinet For Families And Children Should Maintain Adequate Records To Ensure That Payments Are Made For Approved And Allowable Goods And Services	93.558	\$5,791	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.
FY 02	02-CFC-2	The Cabinet For Families And Children Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.
FY 02	02-CFC-15	The Cabinet For Families And Children Should Maintain And Produce Records To Adequately Support Expenditures	93.558	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions (Continued)</u>					
FY 01	01-CFC-1	The Cabinet For Families And Children Should Improve Local Area Network Server Security And Consistently Apply Policies To All Servers	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.
<i>(4) Audit finding is no longer valid and does not warrant further action: (Continued)</i>					
FY 01	01-CFC-2	The Cabinet For Families And Children Should Maintain And Produce Records To Adequately Support Expenditures	93.558	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.

No findings for this section.

Material Weaknesses/Noncompliances

(1) Audit findings that have been fully corrected:

No findings for this section.

(2) Audit findings not corrected or partially corrected:

No findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding no longer valid:

No findings for this section.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 05	05-CHFS-8	The Cabinet For Health And Family Services, Disability Determination Services Should Ensure Its Disaster Recovery Plan Is Updated To Document Required Periodic Training And Testing Of Plan	NA	0	Resolved in FY 06.
FY 05	05-CHFS-11	The Cabinet For Health And Family Services Should Ensure All Agency Web Servers Have Updated Software And Security Patches Installed	NA	0	Resolved in FY 06.
FY 05	05-CHFS-16	The Cabinet For Health And Family Services Should Maintain Documentation Of Peer Reviews	NA	0	Resolved in FY 06.
FY 04	04-CFC-3	The Cabinet For Families And Children Disability Determination Services Should Ensure Its Disaster Recovery Plan Is Updated To Document Required Periodic Training And Testing Of Plan	NA	0	Resolved in FY 06.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 05	05-CHFS-9	The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	See 06-CHFS-7
FY 05	05-CHFS-10	The Cabinet For Health And Family Services Should Ensure Security Information Leakage For Devices Is Minimized	NA	0	See 06-CHFS-8
FY 04	04-CFC-4	The Cabinet For Families And Children Should Ensure Security Information Leakage Concerning Agency Devices Is Minimized	NA	0	See 06CHFS-8.
FY 04	04-CFC-5	The Cabinet For Families And Children Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	See 06-CHFS-7
FY 04	04-CHS-6	The Cabinet For Health Services Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized	NA	0	See 06-CHFS-8.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters</u>					
FY 04	04-CHS-7	The Cabinet For Health Services Should Ensure That All Open Ports On Agency Servers Have A Business-Related Purpose	NA	0	See 06-CHFS-7.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected (Continued):</i>					
FY 04	04-CHS-8	The Cabinet For Health Services Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	See 06-CHFS-11. Due to improvements downgraded to other matter for FY 06.
FY 04	04-CHS-9	The Cabinet For Health Services Should Strengthen The Security Of System Accounts	NA	0	See 06-CHFS-1.
<i>(2) Audit findings not corrected or partially corrected (Continued):</i>					
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
No findings for this section.					
<i>(4) Audit finding is no longer valid and does not warrant further action:</i>					
FY 03	03-CFC-4	The Cabinet For Families And Children Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.
FY 03	03-CFC-5	The Cabinet For Families And Children Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.
FY 03	03-CHS-4	The Cabinet For Health Services Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters (Continued)</u>					
<i>(4) Audit finding is no longer valid and does not warrant further action: (Continued)</i>					
FY 03	03-CHS-5	The Cabinet For Health Services Should Ensure That All Open Ports On Agency Servers Have A Business-Related Purpose	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.
FY 03	03-CHS-6	The Cabinet For Health Services Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.
FY 03	03-CHS-11	The Department For Public Health Needs To Ensure Corrective Actions Are Taken On Subrecipient Monitoring	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.
FY 02	02-CFC-4	The Cabinet For Families And Children Should Ensure That Security Information Leakage Concerning Agency Devices Is Minimized	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters (Continued)</u>					
FY 02	02-CFC-5	The Cabinet For Families And Children Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.
<i>(4) Audit finding is no longer valid and does not warrant further action: (Continued)</i>					
FY 02	02-CHS-4	The Cabinet For Health Services Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.
FY 02	02-CHS-5	The Cabinet For Health Services Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.
FY 02	02-CHS-6	The Cabinet For Health Services Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	Two years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding. A management decision has not been issued.

No findings for this section.